A STUDY ON FINANCIAL PERFORMANCE OF CANARA BANK BASED ON RATIOS



PROJECT REPORT

Submitted to Mahatma Gandhi University in partial fulfillment of the requirements for the award of the Degree

of MASTER OF BUSINESS ADMINISTRATION

Submitted by

JITHIN THOMAS PHILIP

Reg.No.190031000655

Under the guidance of

Mr. Jibmon K G

Faculty Guide



Accredited by NAAC with 'A' Grade DEPARTMENT OF MANAGEMENT STUDIES MAR ATHANASIOS COLLEGE FOR ADVANCED STUDIES TIRUVALLA 2021



MAR ATHANASIOS COLLEGE FOR ADVANCED STUDIES TIRUVALLA

Ph: 0469 2730323 Fax: 0469 2730317 <u>macfast@macfast.org</u> www.macfast.org

CERTIFICATE

This is to certify that the project report entitled "A study on financial performance of canara bank based on ratios" is a bonafide report of the project work undertaken by JITHIN THOMAS PHILIP, fourth semester MBA student of our college during the period from 1stApril to 31 May, 2021.

Jibumon K.G.

Faculty Guide

Dr. Sudeep .B. Chandramana

Head, Dept. of management Studies



Fr. Dr. Cherian . J. Kottayil

Principal

University Examiner

DECLARATION

I hereby declare that this project report entitled —A study on financial performance of Canara Bank based on ratios is a bonafide report of the study undertaken by me, under the guidance of Mr.Jibumon K.G, Department of Management Studies, MACFAST, Tiruvalla.

I also declare that this project report has not been submitted to any other University or Institute for the award of any degree or diploma.



Place: Tiruvalla

Date: 31/05/2021

JITHIN THOMAS PHILIP

ACKNOWLEDGEMENTS

First and foremost, I thank the Lord Almighty, for his perpetual shower of blessings, which led to the successful completion of my project.

I take this opportunity to express my deep sense of gratitude to all those who have helped me throughout this project. It gives me immense pleasure to acknowledge all those who have rented encouragement and support for the successful completion of this work.

I express my profound gratitude and sincere thanks to **Fr. Dr. Cherian J. Kottayil**, Principal of MACFAST, Tiruvalla. I express my heartfelt thanks to **Dr. Sudeep .B. Chandramana**, Head of Department of Management Studies, MACFAST, Tiruvalla for inspiration and valuable suggestions for carrying out this endeavor.

I express my deep sense of gratitude to **Mr.Jibumon K. G**, the faculty member of department of management studies, MACFAST, for encouraging and inspiring me for developing the project.

My project work involves many people at different stages. I would like to thank all those who have directly or indirectly contributed to the success of the project. I also take this opportunity to express profound gratitude to my parents, family members, friends and several people who have contributed for the successful completion of the project. It is my duty and pleasure to acknowledge them.

| Sl. No | Title | Page no |
|--------|--|---------|
| 4.1 | Debt- Equity Ratio | 48 |
| 4.2 | Debt to Capital Ratio | 50 |
| 4.3 | Proprietary Ratio | 52 |
| 4.4 | Solvency Ratio | 54 |
| 4.5 | Fixed Assets Ratio | 55 |
| 4.6 | Current Assets to Proprietors Fund Ratio | 56 |
| 4.7 | Return on Capital Employed | 57 |
| 4.8 | Return on Assets | 59 |
| 4.9 | Return on Equity | 60 |

LIST OF TABLES

| Net Interest Margin | 61 |
|--|---|
| Operating Profit Margin | 63 |
| Net Profit Margin | 64 |
| CASA | 65 |
| Trend Analysis of Current Assets | 67 |
| Trend Analysis of Cash | 68 |
| Trend Analysis of Current Liabilities | 69 |
| Trend Analysis of Working Capital | 71 |
| Trend Analysis of Total Assets | 72 |
| Trend Analysis of Deposits | 73 |
| Trend Analysis of Debt | 74 |
| Trend Analysis of Equity | 75 |
| Trend Ratio Analysis of Debt Equity Ratio | 76 |
| Trend Ratio Analysis of Solvency Ratio | 77 |
| Trend Ratio Analysis of Fixed Assets Ratio | 78 |
| | Net Interest MarginOperating Profit MarginNet Profit MarginCASATrend Analysis of Current AssetsTrend Analysis of CashTrend Analysis of Current LiabilitiesTrend Analysis of Working CapitalTrend Analysis of Total AssetsTrend Analysis of DepositsTrend Analysis of DebtTrend Analysis of EquityTrend Ratio Analysis of Solvency RatioTrend Ratio Analysis of Fixed Assets Ratio |

LIST OF FIGURES

| Sl. No | Title | Page no |
|--------|--|---------|
| 2.1 | Demand and supply in the financial market for credit cards | 15 |
| 4.1 | Debt- Equity Ratio | 47 |
| 4.2 | Debt to Capital Ratio | 49 |
| 4.3 | Proprietary Ratio | 51 |
| 4.4 | Solvency Ratio | 52 |
| 4.5 | Fixed Assets Ratio | 54 |

| | Current Assets to Proprietors Fund Ratio | 56 |
|------|--|----|
| 4.6 | Current Assets to Frephetors Fund Rutto | 50 |
| 4.7 | Return on Capital Employed | 58 |
| 4.8 | Return on Assets | 59 |
| 4.9 | Return on Equity | 60 |
| 4.10 | Net Interest Margin | 61 |
| 4.11 | Operating Profit Margin | 63 |
| 4.12 | Net Profit Margin | 64 |
| 4.13 | CASA | 66 |
| 4.14 | Trend Analysis of Current Assets | 68 |
| 4.15 | Trend Analysis of Cash | 69 |
| 4.16 | Trend Analysis of Current Liabilities | 70 |
| 4.17 | Trend Analysis of Working Capital | 71 |
| 4.18 | Trend Analysis of Total Assets | 72 |
| 4.19 | Trend Analysis of Deposits | 73 |
| 4.20 | Trend Analysis of Debt | 74 |
| 4.21 | Trend Analysis of Equity | 75 |
| 4.22 | Trend Ratio Analysis of Debt Equity Ratio | 77 |
| 4.23 | Trend Ratio Analysis of Solvency Ratio | 78 |
| 4.24 | Trend Ratio Analysis of Fixed Assets Ratio | 79 |

CONTENTS

| ACKNOWLEDGEMENT | 1 |
|-----------------|---|
| LIST OF TABLE | 2 |
| LIST OF FIGURES | 3 |

| SI NO | CHAPTERS | PAGE NUMBER |
|--------------------|---|----------------|
| | Introduction – Statement of the Problem | |
| 01 | 1.1 Background of the Study | 1.2 |
| | 1.2 Statement of the Problem | 2.3 |
| | 1.2 Statement of the Floblem | 2-3 |
| | 1.5 Relevance & Scope of the Study | 24 |
| | Industry Profile | 3-4 |
| | industry i fonic | |
| | 2.1 Business Process of the Industry | 5-14 |
| 02 | 2.2 Market Demand & Supply – Contribution to GDP – Revenue Generation | 14-17 |
| | 2.3 Level and Type of Competition – Firms Operating in the Industry | 18 |
| | 2.4 Pricing Strategies in the Industry | 18-20 |
| | 2.5 Prospects and Challenges of the Industry | 20 |
| | 2.6 Key Drivers of the Industry | 20-21 |
| | Review of Literature | |
| 02 | 3.1 Brief Theoretical Construct related to the Problem | 22 |
| 03 | 3.2 An Overview of Earlier Studies | 22-39 |
| | 3.3 Uniqueness of Research Study | |
| | Methodology of the Study | |
| 0.4 | 4.1 Research Approach and design | 40-41 |
| 04 | 4.2 Sources of Online Data | 41-42 |
| | 4.3 Data analysis tools | 42 |
| | 4.4 Report Structure | 43 |
| | 4.5 Limitations of the Study | 44 |
| 05 | Data Analysis, Interpretation & Inference | 45-79 |
| 06 | Findings of the Study | 81 |
| 07 | Conclusions | 82 |
| Bibliography 83-88 | | |

Ľ.



CHAPTER 1

INTRODUCTION – STATEMENT OF THE PROBLEM

1.1. BACKGROUND OF THE STUDY

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 under take 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.

Therefore in order to learn about the firm the careful examination of valuable reports and statements

through financial analysis or ratio is required. Also, trend analysis is used to analyze the financial performance of the bank. The significance of a trend analysis of the ratio lies in the fact that the analyst can know the direction of movement, that is, whether the movement is favourable or unfavourable.

The present study is concern with analysis of the financial performance of the Canara Bank based on some selected leverage and profitability ratios. The financial health of the bank is analyzed using leverage or solvency ratios and financial position or performance of the bank is analyzed using the profitability ratios.

1.2 STATEMENT OF RESEARCH PROBLEM

Ratios are very useful to draw the conclusion about the factors contributing for the future growth and also wants to maintain the same in the longer run and also improve the profitability and liquidity of the organization. This study is to know the financial performance of Canara Bank through ratio and trend analysis, for a period of five years.

A study on capital structure was the path breaking contribution of Modigliani and Miller (1958) under the perfect capital market assumption .Modigliani and miller (1958) assumed that under condition of perfect market firm's value is independent of its capital structure. Other studies conducted by Kester and Kolb (1991), analyzed the relationship between leverage, capital structure and profitability and concluded leverage was negatively correlated with profitability. The issue of leverage has created tidal waves and as a result, numerous academic writers have examined its impact on firm Capital Structure. Lacking significantly in the literature are studies that are purported to investigate the association between debt policy and performance in developing nations like India. Therefore, from the foregoing discussions based on the available empirical literature, it is clear that results from investigations into the relationship between leverage by examining the relationship between leverage and Capital structure of Canara Bank using data from Annual report. The researchers were motivated by the fact that, this study was going to fill this identified gap. Unfortunately, financial managers in the Public sector do not have a clear cut guideline that they can consult when taking decision in connection with optimal capital structure, hence the study was initiate to contribute to the literature in this context.

The seminal work of Modigliani and miller (1958) who studied the impact of corporate tax in use of debt capital, many researchers viz., Myers (1984), Titman and Wessel (1988), Rajan and Zingales (1995) have analyzed the factors that determine the capital structure of a firm and while there exist varied view about the relation between profitability and capital structure. The necessity for such researches, in this area, has

gained importance as globalization and stiff competition have forced today's corporate firms to determine that level of debt, which offers increased profitability to the firm's owners without unduly increasing the risk of insolvency and at the same time make the firm a less attractive target for corporate restructuring. Most of theories tested by developed countries; need to be tested for their adaptability in the developing countries like India in recent time. A question still remains before financial managers in the Indian context, whether to issue debt or equity.

1.3 RELEVANCE AND SCOPE OF THE STUDY

To the researcher it marked the beginning of our efforts to adding to existing knowledge. For the academic

world, this study has shed some light on the leverage, capital structure and profitability issue which has much been discussed since the M&M propositions. The significance of this study is further enhanced considering the fact that research into capital structure of Canara Bank. For practitioners, this study is relevant and of much interests to financial controllers, managers, directors particularly those working in the firm to get to know about the leverage structure of Canara Bank

A good bank is not only the financial heart of the community, but also one with an obligation of helping in every possible manner to improve the economic conditions of the common people. Sound founding principles, enlightened leadership, unique work culture and remarkable adaptability to changing banking environment have enabled Canara Bank to be a frontline banking institution of global standards. The Main aim of the study is to find out the financial performance of Canara Bank using leverage and profitability ratios. The study covered a period of five (5) years 2015 to 2020 on the Canara Bank.

1.4 OBJECTIVE OF THE STUDY

This research will attempt to achieve the following objectives;

Primary objective

To analyze the financial position of the company using ratio analysis and trend analysis.

Secondary objectives

□ To analyze the firm's capital structure using different ratios.□

To assess the ability of the firm to meet its financial obligations using leverage ratios. \Box

- □ To evaluate the financial performance of the firm using profitability ratios.□
- \Box To measure the financial health of the firm using solvency ratios. \Box

To compare the financial performance of the firm using trend analysis.□

CHAPTER 2

PROFILE OF THE INDUSTRY AND ORGANIZATION

THE BANK

The word bank means an organization where people and business can invest or borrow money, change it to foreign currency etc. According to Halsbury —A banker is an individual, Partnership or Corporation whose sole pre-dominant business is banking that is the receipt of money on current or deposit account, and the payment of cheque drawn and the collection paid in by customer.

2.1 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 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

Industry Profile

Indian banking is the lifeline of the nation and its people. Banking has helped in developing the vital

sectors of the economy and usher in a new dawn of progress on the Indian horizon. The sector has translated the hopes and aspirations of millions of people into reality. But to do so, it has had to control miles and miles of difficult terrain, suffer the indignities of foreign rule and the pangs of partition. Today, Indian banks can confidently compete with modern banks of the world. Before the 20th century, usury, or lending money at a high rate of interest, was widely prevalent in rural India. Entry of Joint stock banks and development of Cooperative movement have taken over a good deal of business from the hands of the Indian money lender, who although still exist, have lost his menacing teeth.

In the Indian Banking System, Cooperative banks exist side by side with commercial banks and play a supplementary role in providing need- based finance, especially for agricultural and agriculture- based operations including farming, cattle, milk, hatchery, personal finance etc. along with some small industries and self- employment driven activities. Generally, co-operative banks are governed by the respective co- operative acts of state governments. But, since banks began to be regulated by the RBI after 1st March 1966, these banks are also regulated by the RBI after amendment to the Banking Regulation Act 1949. The Reserve Bank is responsible for licensing of banks and branches, and it also regulates credit limits to state co-operative banks on behalf of primary co-operative banks for financing SSI units. Banking in India originated in the first decade of 18th century with The General Bank of India coming into existence in 1786. This was followed by Bank of Hindustan. Both these banks are now defunct. After this, the Indian government established three presidency banks in India. The first of three was the Bank of Bengal, which obtains charter in 1809, the other two presidency bank, viz., the Bank of Bombay and the Bank of Madras, were established in 1840 and 1843 respectively. The three presidency banks were subsequently amalgamated into the Imperial Bank of India (IBI) under the Imperial Bank of India Act, 1920 – which is now known as the State Bank of India. A couple of decades later, foreign banks like Credit Lyonnais started their Calcutta operations in the 1850s. At that

point of time, Calcutta was the most active trading port, mainly due to the trade of the British Empire, and due to which banking activity took roots there and prospered. The first fully Indian owned bank was the Allahabad Bank, which was established in 1865.By the 1900s, the market expanded with the establishment of banks such as Punjab National Bank, in 1895 in Lahore and Bank of India, in 1906, in Mumbai – both of which were founded under private ownership.

The Reserve Bank of India formally took on the responsibility of regulating the Indian banking sector from 1935. After India's independence in 1947, the Reserve Bank was nationalized and given broader powers. As the banking institutions expand and become increasingly complex under the impact of deregulation, innovation and technological up gradation, it is crucial to maintain balance between efficiency and stability.

During the last 30 years since nationalization tremendous changes have taken place in the financial

markets as well as in the banking industry due to financial sector reforms. The banks have shed their traditional functions and have been innovating, improving and coming out with new types of services to cater emerging needs of their customers. Banks have been given greater freedom to frame their own policies. Rapid advancement of technology has contributed to significant reduction in transaction costs, facilitated greater diversification of portfolio and improvements in credit delivery of banks. Prudential norms, in line with international standards, have been put in place for promoting and enhancing the efficiency of banks. The process of institution building has been strengthened with several measures in the areas of debt recovery, asset reconstruction and securitization, consolidation, convergence, mass banking etc. Despite this commendable progress, serious problem have emerged reflecting in a decline in productivity and efficiency, and erosion of the profitability of the banking sector. There has been deterioration in the quality of loan portfolio which, in turn, has come in the way of bank's income generation and enhancement of their capital funds. Inadequacy of capital has been accompanied by inadequacy of loan loss provisions resulting into the adverse impact on the depositors' and investors' confidence. The Government, therefore, set up Narasimham Committee to look into the problems and recommend measures to improve the health of the financial system. The acceptance of the Narasimham Committee recommendations by the Government has resulted in transformation of hitherto highly regimented and over bureaucratized banking system into market driven and extremely competitive one. The massive and speedy expansion and diversification of banking has not been without its strains.

The banking industry is entering a new phase in which it will be facing increasing competition from nonbanks not only in the domestic market but in the international markets also. The operational structure of banking in India is expected to undergo a profound change during the next decade. With the emergence of new private banks, the private bank sector has become enriched and diversified with focus spread to the wholesale as well as retail banking. The existing banks have wide branch network and geographic spread, whereas the new private banks have the clout of massive capital, lean personnel component, the expertise in developing sophisticated financial products and use of state-of-the-art technology. Gradual deregulation that is being ushered in while stimulating the competition would also facilitate forging mutually beneficial relationships, which would ultimately enhance the quality and content of banking. In the final phase, the banking system in India will give a good account of itself only with the combined efforts of cooperative banks, regional rural banks and development banking institutions which are expected to provide an adequate number of effective retail outlets to meet the emerging socio-economic challenges during the next two decades. The electronic age has also affected the banking system leading to very fast electronic fund transfer.

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 mid-1990s 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.

Bank accounts opened under the Government's flagship financial inclusion drive Pradhan Mantri Jan

Dhan Yojana (PMJDY) reached 40.05 crore and deposits in Jan Dhan bank accounts stood at more than Rs 1.30 lakh crore (US\$ 18.44 billion). Rising income is expected to enhance the need for banking services in rural areas, and therefore, drive the growth of the sector.

The digital payments revolution will trigger massive changes in the way credit is disbursed in India. Debit cards have radically replaced credit cards as the preferred payment mode in India after demonetization. Payments on Unified Payments Interface (UPI) hit an all-time high of 1.49 billion in terms of volume with transactions worth nearly Rs 2.90 lakh crore (US\$ 41.22 billion) in July 2020.

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 the 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.

Ammembal Subba Rao Pai, a philanthropist, established the Canara Hindu Permanent Fund in Mangalore, India, on 1 July 1906. The bank changed its name to Canara Bank Limited in 1910 when it incorporated. Canara Bank's first acquisition took place in 1961 when it acquired Bank of Kerala. 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. These include:

- Launching of Inter-City ATM Network
- Obtaining ISO Certification for a Branch

• Articulation of Good Banking' - Bank's Citizen Charter

- Commissioning of Exclusive Mahila Banking Branch
- Launching of Exclusive Subsidiary for IT Consultancy
- Issuing credit card for farmers
- Providing Agricultural Consultancy Service

Canara Bank provides various banking products and services primarily in India. The company offers personal banking products and services, including savings, current, fixed, and recurring deposits, as well as auto renewal deposits, deposit schemes for senior citizens, and other deposits; and loan products comprising housing loans, home improvement loans, vehicle loans, teachers loans, gold loans, pension loans, mortgage loans, reverse mortgage loans for senior citizens, loans for medical practitioners, and education loans. Canara Bank's personal banking products and services also comprise ATM and debit cards, inter-bank funds transfer and electronic funds transfer services, mutual fund products, insurance products, foreign exchange and international banking services, credit cards, consultancy services, and depository services, as well as safe deposit lockers, custody services, and retail sale of gold coins.

Over the years, the Bank has been scaling up its market position to emerge as a major 'Financial Conglomerate' with as many as nine subsidiaries/sponsored institutions/joint ventures in India and abroad. As at March 2015, the Bank has further expanded its domestic presence, with 5682 branches spread across all geographical segments. Keeping customer convenience at the forefront, the Bank provides a wide array of alternative delivery channels that include 8533 ATMs, covering 4021 centres. Several IT initiatives were undertaken during the year. The Bank set up 132 hi-tech Elounges in select branches with facilities like ATM, Cash Deposit Kiosk with voice guided system, Cheque Deposit Kiosk, Self-Printing Passbook Kiosk, Internet Banking Terminal, Online Trading

Terminal and Corporate Website Access. _Canara e- Infobook' – an electronic passbook and banking related information facility was introduced on mobile platforms - Android, Windows8 &iOS. The Bank also launched Canara Bank RuPay Debit Card, Canara Club Card – Debit, Canara Secured Credit Card, Canara Elite Debit Card, Canara Bank Platinum Rupay Cards, Platinum Rupay Card and EMV Chip Cards under debit and credit cards. Online Savings Bank and PPF account opening were introduced during the year. The Bank made several value additions under internet banking and mobile banking services.

Not just in commercial banking, the Bank has also carved a distinctive mark, in various corporate social

responsibilities, namely, serving national priorities, promoting rural development, enhancing rural selfemployment through several training institutes and spearheading financial inclusion objective. Promoting an inclusive growth strategy, which has been formed as the basic plank of

national policy agenda today, is in fact deeply rooted in the Bank's founding principles. "A good bank is not only the financial heart of the community, but also one with an obligation of helping in every possible manner to improve the economic conditions of the common people". These insightful words of our founder continue to resonate even today in serving the society with a purpose. The growth story of Canara Bank in its first century was due, among others, to the continued patronage of its valued customers, stakeholders, committed staff and uncanny leadership ability demonstrated by its leaders at the helm of affairs. We strongly believe that the next century is going to be equally rewarding and eventful not only in service of the nation but also in helping the Bank emerge as a "Preferred Bank" by pursuing global benchmarks in profitability, operational efficiency, asset quality, risk management and expanding the global reach.

In 1958, the Reserve Bank of India 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. This had been founded on 7 February 1899 and had 14 branches at the time of the merger.

Next, Canara Bank acquired four banks in 1963: the Sree Poornathrayeesa Vilasam Bank, Thrippunithura, Arnad Bank, Tiruchirapalli, Cochin Commercial Bank, Cochin, and Pandyan Bank, Madurai. Sree Poornathrayeesa Vilasam 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.

On 30 August 2019, Finance Minister Nirmala Sitharaman announced that Syndicate Bank would be

merged with Canara Bank. The proposed merger would create the fourth largest public sector bank in the country with total business of ₹15.20 lakh crore (US\$210 billion) and 10,324 branches. The Board of Directors of Canara Bank approved the merger on 13 September. The Union Cabinet approved the merger on 4 March 2020. The merger was completed on 1 April 2020 with Syndicate Bank shareholders receiving 158 equity shares in the former for every 1,000 shares they hold.

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 Sharjah.

Together with State Bank of India, 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 nonresident Indians (NRIs) established in 1981 in the United Arab Emirates to facilitate remittances to India by tourists and NRIs.

Since 1983, Canara Bank has been responsible for the management of Eastern Exchange Co. WLL, Doha, Qatar, which Abdul Rahman M.M. Al Muftah established in 1979. Canara Bank opened its seventh overseas branch in New York, United States on 10 June 2014.

Canara Bank sponsors four regional rural banks (RRB):

- Andhra Pragati gramin Bank
- Kerala Gramin Bank It is the largest RRB in India. Its headquarters are at Malappuram and it operates in all districts in Kerala. It was established in 1976 as a Scheduled Commercial Bank.
- Karnataka Gramin Bank has its headquarters at Bellary, Karnataka, and has 645 branches spread over eleven districts.
- Karnataka Vikas Grameena Bank was constituted on 12 September 2005 after amalgamation of four Regional Rural Banks (RRBs) namely Malaprabha Grameena Bank, Bijapur Grameena Bank, Varada Grameena Bank and Netravathi Grameena Banks as per recommendations of the Narasimhan Committee under Government of India Notification dated 12 September 2005. All four amalgamated RRBs were sponsored by Syndicate Bank (Now Canara Bank) and were located in Karnataka.
Canara Bank offers Unified Payment Interface (UPI) app named —empower^{II}. This app empowers Canara Bank and other Bank customers to perform pay and collect transactions using a single mobile app. On 19 November 2017, it launched Canarites (Candi) app, a digital library, a field recovery mobile app, a retail loan (vehicle) – tracking system, and a regulatory guidance tracking system.

On 7 May 2020, Bhanu Srivastav from Canara Bank, partnered with NGOs to donate all his royalty proceeds for the betterment of needy children. He is working at Canara Bank Head Office, in Human Resource Department and a bestselling author of novel 'Hacker 404 Happiness not found'.

On 23 May 2020, Canara Bank announced credit support for borrowers affected by COVID-19 to enable them to avail the sanctioned facilities to the full extent and improve their business.

On 19 July 2020, Canara Bank announced to raise up to Rs 5,000 crore equity capital in Financial Year 2021 to strengthen capital base and to boost capital adequacy ratio in view of expansion plans. The Bank will seek nod from shareholders for the same in its AGM in August 2020.

Corporate Vision:

To emerge as a world class Bank with best practices in realms of asset portfolio. Customer orientation, product innovation, profitability and enhanced value to stake holders.

Corporate Mission:

- Augmenting low cost Deposits
- Threat on Retail lending
- Toning up Asset Quality
- Assent on cost control
- Product innovation and marketing
- Customer Centric focus
- Leveraging IT for comprehensive MIS
- Maximizing stakeholders Value

Corporate Objectives:

- Efficiency
- Profitability and Productivity
- Organisational Effectiveness.
- Customer Centric
- Hi-tech Banking

2.2 MARKET DEMAND AND SUPPLY- CONTRIBUTION TO GDP-REVENUE GENERATION

Financial markets are made up of a large number of markets for different types of securities: equities, bonds, credit cards, etc. In the market for each asset, supply and demand interact to determine the price and rate of return. Since each financial market is both a source of borrowed funds and a destination for saving, each financial asset is a substitute for every other financial asset (to greater or lesser extent), and thus, all financial markets are linked, directly or indirectly. For example, if the interest rate on U.S. Treasury Bills goes up, you should expect the interest rates on U.S. Treasury notes and bonds to go up a certain extent also. The reason is that if interest rates on Treasury bills increase, that will make bills more attractive to people who normally invest in Treasury notes and bonds. As people shift their savings to bills, the interest rates on notes and bonds will rise. Financial markets can be analyzed by using the theories of supply and demand. Those who save money (or make financial investments, which is the same thing), whether individuals or businesses, are on the supply side of the financial market. Those who borrow money are on the demand side of the financial market. In any market, the price is what suppliers receive and what demanders pay. In financial markets, those who supply financial capital through saving expect to receive a rate of return, while those who demand financial capital by receiving funds expect to pay that rate of return. A rate of return can come in a variety of forms, depending on the type of investment. The simplest example of a rate of return is an interest rate. For example, when you put money into a savings account at a bank, you receive interest on your deposit. The interest payment expressed as a percent of your deposits is the interest rate. Similarly, if you demand a loan to buy a car or a computer, you will need to pay interest on the money you borrow



Fig 2.1 Demand and supply in the financial market for credit cards

In this market for credit card borrowing, the demand curve (D) for borrowing financial capital intersects the supply curve (S) for lending financial capital at equilibrium E. At the equilibrium, the interest rate (the —pricel in this market) is 15% and the quantity of financial capital being loaned and borrowed is \$600 billion. The equilibrium price is where the quantity demanded and the quantity supplied are equal. At an above-equilibrium interest rate like 21%, the quantity of financial capital supplied would increase to \$750 billion, but the quantity demanded would decrease to \$480 billion. At a below-equilibrium interest rate like 13%, the quantity of financial capital supplied would be the supp

Contribution to GDP

- Contribution of the banking sector to GDP is about 7.7% of GDP.
- Banking sector intermediation as measured by total loan as a % of GDP is 30%.
- Banking sector has generated employment to the tune of 1.5 million.

The development of the banking sector plays a pivotal role in the economic development of any country. Capital or funds can be considered as one of the essential components while measuring the growth of a nation and a developed and able body that can administer the entire financial system is given paramount importance. Thus, to attain a steady GDP growth and ensure economic development, the valuable services of a developed financial system of the country are taken into consideration.

To understand economic development, one must understand the notion of demand and supply, which are

the basic principles of any economy. An economy grows when there is consumption, that is, there is a demand for goods and services of various sectors. Consumption can be looked upon as a driver of GDP growth. However, when products are manufactured, and there is a dearth of consumption, the industry will hit a recession, as faced by the automobile industry in the past year.

The commercial banks support the government by helping with finance using various methods such as offering direct credit to government bodies and government agencies. These banks also subscribe to public debt and make investments in several of the government securities. Through this provision of direct credit, the government is able to deploy multiple development schemes.

These banks are also spreading their wings worldwide, as well as reaching every nook and corner of the country, enabling semi-urban and rural population to avail the banking services. By granting credit to the ones in distress, these balance the economic development without differentiating or segregating and decentralize it.

Besides contributing to the formation of initial capital required for investment, the banking industry indirectly assists the government in handling several problems namely shortage of savings, rising prices, unemployment, unbalanced development, entrepreneurial blocks due to capital limitations. This sector is crucial for the development of trade and industry as these often act as financial advisers, counselors. Having people's trust at its core, it continues to drive up GDP growth and follow regulations and mandates to avoid any economic disruption.

Revenue Generation

Banks are known for charging penalties or recurring fees to account holders, but the main way they make money is through loans. Below are the main ways in which banks make money.

a) Profits from debt interest When you deposit your money in a bank account, the bank uses that money to make loans to other people and businesses to whom they charge interest. The bank pays you a certain amount of interest in exchange for keeping your deposit. However, they collect more interest on the loans they issue to others than the amount of interest they pay to account holders like you. This, in turn, earns them a profit.

b) Banking fees Another way banks make money is through regular or case-by-case fees. These might include: • Account —maintenancel fees are generally charged to your account monthly just for being open. These are often avoidable and should be taken into consideration when choosing a bank or a particular account.

• Inactivity fees for not using your account often enough. Be sure to look into this before opening an

account you plan to seldom use.

- Overdraft or insufficient fund charges when you spend more than you have in your account. You can avoid these by staying on top of your budget.
- Excessive withdrawal fees from savings accounts, which have monthly caps mandated by the federal government.
- Wire transfer fees if you want to send money to another bank or entity quickly. These transfers typically happen on the same day. It is not the same as ACH transfers which can take a few days etc.
- Charges for paper statements if you opt not to receive online statements. Going paperless is more environmentally friendly, easier to track, and efficient anyway, so definitely consider this option.
- Debit card replacement fees for lost or stolen debit cards.
- ATM fees if you use certain ATMs outside of your bank's network.
- Bad check penalties if you deposit someone else's bad check, even if you do so unknowingly.
- Minimum balance charges if your account balance falls below the minimum required balance

c) Interchange fees While swiping your debit or credit card is generally free to you, a transaction or processing fee called interchange is typically generated. This fee is charged by your bank to the merchant's bank as a percentage of your transaction. The merchant's bank then deducts this fee and their own processing fee, from the cost of your purchase.

As with any other business, banks also have their share of expenses they need to pay to keep things running. They include:

a) Non-interest expenses About 15% of the cost of running a bank is —non-interest expenses, with a median expense of about \$400,000 for branches across the country. These costs include standard operational spending like employee salaries and benefits, equipment and IT, rent, taxes, and professional services like marketing.

b) Interest expenses On the other hand, banks also have —interest expenses, which are the cost of interest on loans they take out, just like you pay when you take out a loan. As mentioned earlier, banks might pay interest on deposits to their account holders, short-term and long-term loans they take out, and trading account liabilities.

2.3 LEVEL AND TYPE OF COMPETITION- FIRMS OPERATING IN

BANKING INDUSTRY

Competition in banking is entirely different from other sectors of the economy due to the special function of banks in the financial system. The standard competition paradigm in favor of competition regarding cost minimization and allocate efficiency is not entirely valid for banking because many market failures distort the nature of competition and its outcomes. This paper presents an overview of competition in the banking sector for developed markets and its particular characteristics. The uniqueness and fragility of banks, business models in banking, competition paradigm in banking, and historical overview of competition in the empirical literature on banking are introduced. Banking competition and four types of competition are defined:

banking competition, competition between the state and non-state banks, competition between banks and non-banking credit institutions, and competition between banks and non-financial organizations.

2.4 PRICING STRATEGIES IN BANKING INDUSTRY

Traditionally, the Indian banking industry has been tightly regulated, with little scope for innovation in products and pricing. Most banks follow a cost-plus and market-based pricing strategy, which was justifiable until recently as the banking industry was in a nascent stage and the market, largely underpenetrated. This strategy has helped banks grow considerably. Typically, the approach for banks' pricing factors in the cost of funds, risk-based spread and an assessment of the competitors' product portfolios. However, there are other components that are either underestimated or not fully accounted for such as the correct cost of servicing and the customers' value perception regarding such products.

1. Estimation of the right cost of servicing

Since most banks and financial institutions adopt a traditional approach to determine the cost of production and marketing of products, the current estimates do not take into account other associated costs. These include the cost of maintenance of infrastructure (branches, ATMs and call centre's) and those incurred to support technology, product launches and pilots. Fee-based income does not aid in the recovery of the cost of services. Instances wherein the spread (net interest margin) compensates for the cost of services are rare, and it merely compensates for risk-adjusted returns on the equity of the core lending business.

2. Value-based pricing

A value-based pricing approach focuses on understanding the customers' willingness to pay a premium for products or services on the basis of the value offered. Banks can optimize their pricing and secure a larger share of customers' wallets with an increased focus on product innovation and customer analytics applications. Value-based pricing advocates segmenting customers first. It calls for a gradual shift from a product-centric mind-set to a customer-centric approach.

Banks should deploy a dual transformation strategy focused on both tactical measures and strategic enablers to implement value-based pricing strategy. In the long term, banks should set up strategic analytic functions, which should be supported by pricing operations, product management, data analytics and technology. Notwithstanding the effort involved, there are certain tactical methods which can be deployed swiftly and effectively to realize benefits in the near term. These include:

a) Marketing campaigns:

Banks should deploy dedicated marketing campaigns for the launch of new product features, while targeting a set of customers. Marketing campaigns that emphasize differentiated value propositions for dedicated customer segments enable a faster go-to-market approach.

b) Dynamic pricing:

Industries that have successfully implemented dynamic pricing can be used as examples by banks looking to adopt the same approach. The concept implies that the pricing of products and services adjust on a realtime basis to the prevailing demand. Customers exposed to e-commerce are familiar with this concept and will not view it as a negative. They would attempt to make the best use of this opportunity, which in turn will prompt banks to optimize their services. For example, the usage of ATM networks or call centre's can be dynamically priced on the basis of time and location. **c) Loyalty pricing:**

Rewarding loyalty can provide a special price differentiation feature to banks' products. This will not only enable them to retain and increase their share of wallets with existing clients, but can also help increase market share. The concept is gaining prominence in e-commerce and credit cards, and can also be used to market other banking products. For instance, any bank can offer a _next vehicle loan' to its existing vehicle loan customers at a slightly competitive rate. This enables it to capture significant value, as most car owners purchase new vehicles every five to six years.

d) Behavioral pricing:

A fairly new concept, behavioral pricing is a form of price differentiation based on customers' usage or buying history. However, the prerequisite for using this strategy is access to a large amount of customer data. Behavioral pricing can be easily applied in the allied areas of e-commerce like mobile banking, cards and other payment-related products.

2.5 PROSPECTS AND CHALLENGES IN BANKING INDUSTRY

Future Prospects a) Potential of internet banking b) Internet banking risk c) Challenges to internet banking d) Proposed strategies e) Future prospects of internet banking a) Potential of internet banking Personal computer sales in India are presently growing at a rate of 57% annually and developments in information technology including internet access are also persistent. 35% of households are expected to own a PC by 2016 and this growth will proliferate if Indian internet infrastructure keeps on following the prototype of global trends. Introduction of internet banking system in India will result into a thriving number of online bankers. In India, there is a colossal potential for progress and expansion of a world-scale internet economy. The elements that may impact enhancement of internet banking in India are discussed in the ensuing section.

2.6 KEY DRIVERS IN BANKING INDUSTRY

1. Customer Behavior

The new ways consumers get information and go about their lives is profoundly different from the customer behavior norms of yore. Increasingly, customers are looking for digital interactions that are simple yet aesthetically appealing, highly personalized and context aware so that the need of the moment is served quickly without cumbersome intervention from the service provider. Customer Experience (CX) is now the decisive competitive differentiator between banks, more so than just the breadth and depth of their products and services portfolio.

2. Digital Innovation

Advances in digital technology are offering a myriad of channels for customer interaction. Channels like online and mobile banking have already changed how customers engage with the bank. Customer interaction through digital channels is also generating valuable behavioral and transactional data. Analytics on this newly available data enables even more meaningful ways to engage customers. Ever since the transaction mix started favoring digital channels, most industry analysts and technology service providers have been calling out the underlying technology imperative. However, what is often overlooked is the operational transformation and process optimization required to profitably support the morphing

operating model. Furthermore, as the operating model transitions to support this bias towards digital interactions, back office systems such as Core Banking and CRM will also need to be modernized to provide requisite functional capabilities.

3. Regulatory Compliance

Increasing regulatory pressure is one of the legacies of the recent financial crisis. The cost of compliance as well as non-compliance continues to be on the rise. In many scenarios, streamlined customer interaction and low-touch transaction processing made possible by the ubiquity of digital channels will help mitigate various risks associated with regulatory compliance. Moreover, a number of compliance initiatives can generate information and context that can be channeled towards revenue creation.

4. Macroeconomic Environment

The interest rate trends and after-effects of the financial crisis have created a tough operating environment

for banks. At the time of this writing, the return on equity and return on assets for banks in the US is close to the lowest it has been over the past 12 quarters. Return on equity remains below the cost of equity. Now, more than ever, banks are looking to eke out incremental profitability from product and service innovation deployed via digital channels. However, such profitability can only be achieved via efficiencies derived from requisite operational changes and process optimization.

CHAPTER 3 REVIEW OF LITERATURE

3.1 Brief Theoretical Construct related to the Problem

According to literatures, bank performance studies have been started in the late 1980s and/or early 1990s. These studies revolve on different theories. For Instance, the signaling theory, which elaborates the relationship between capital and profitability, suggests that higher capital is a positive signal to the market of the value of bank. (Berger, 1995) By the same token, a lower leverage indicates that banks perform better than their competitors who can't raise their equity without further deteriorating the profitability (Ommeren, 2011). Bankruptcy cost hypothesis on the other hand, argues that in case where bankruptcy costs are unexpectedly high , a bank holds more equity to avoid period of distress (Berger, 1995). Hence, both the signaling theory and bankruptcy cost hypothesis support the existence of a positive relationship between capital and profitability.

However, the risk-return hypothesis suggests that increasing risks, by increasing leverage of the firm, leads to higher expected return (profitability) on one hand and it will definitely reduce the equity to asset ratio (represented by capital) on the other hand. Thus, risk-return hypothesis predicts a negative relationship between capital and profitability. (Obamuyi, 2013) Contrary to the above argument, Modigliani - Miller theorem conclude that no relationship exists between the capital structure (debt or equity financing) and the market value of the bank (Modigliani and Miller, 1958). In other words, no relationship exists between equity to asset ratio and funding costs or profitability under perfect market. However, when the concept of Money Market's perfect market is scrutinized there is no such a thing in the real world owing to agency problem, information asymmetry problem, existence of transaction costs, etc. Thus, when the perfect market does not hold there could be a possible negative relationship between capital and profitability. Ommeren, (2011), Olweny and Shipho (2011) argued that the Market Power theory (MP) assumes bank profitability is a function of external market factors, while the Efficiency Structure (ES) theories and the balanced portfolio theory largely assume that bank performance is influenced by internal efficiencies and managerial decisions. Despite the existence of several models to deal with bank specific aspects, none of the models are believed to be sufficient to express all bank specific behaviors in a holistic manner, the researchers asserted

3.2 An Overview of Earlier Studies

According to Aburime (2009), the importance of bank profitability can be appraised at the micro and macro level of the economy. At the micro level, profit is the essential prerequisite of a competitive banking institutions and the cheapest source of funds. It is not merely a result, but also a necessity for successful banking in a period of growing competition on financial markets. Hence, the basic aim of every bank management is to maximize profit, as an essential requirement for conducting business. Various literatures written by academicians also assert that profitability is the bottom line or ultimate performance result showing the net effects of bank policies and activities in a financial year. As a matter

of fact, numerous factors such as inflation, accounting policy, high level of competition, etc., may have an influence on a bank's profitability. In due course, wide varieties of ratios are discussed and different measures of profitability of commercial banks have been suggested. For instance, Net Interest Margin (NIM), Return on Assets (ROA), and Return on Equity were identified by Ahmed (2003) are in use in the literature since then.

Profitability measures according to Akinola (2008) include Profit before Tax (PBT), Profit after Tax (PAT), ROE, Rate of Return on Capital (ROC). Some other, studies on profitability have also used returns on average bank assets (ROAA), net interest margin (NIM) and return on average equity (ROAE) to measure profitability according to Francis (2013). However, owing to divergent views among scholars on the superiority of one indicator over the others as measures of profitability measure only to the three widely used measures namely Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM). Accordingly, some scholars select either of the three and some others preach to select three of them at once. In line with the above discussion, the researcher has used ROA as measure of profitability for this particular study owing to the limitations of NIM & ROE. NIM is reported to have two major limitations. First, it doesn't measure the total profitability of the bank as most of them earn fees and other non-interest income through service like brokerage and deposit account services without taking account operating expenses, such as personnel and facilities costs, or credit costs. Besides, net interest margin of two banks can't be contrasted as both the banks are poles apart in their own way in the nature of their activities, composition of customer base, etc.

In India, there have been significant changes in the capital market over the last few decades. The government rules and regulations have also been changing from time to time. Hence, the expectations of the investing community have also changed in keeping with the aforementioned changes. How the corporates raise funds and utilize the same has become a make or break point so far as the financial performance of the corporate world is concerned. Leverage has always been and continues to be the buzzword for the corporates and the investors as well as other stakeholders. The word _Leverage' sounds like it has a positive ring to it. But the reality is as different as chalk from cheese. It has its pros under a particular set of financial circumstances and also its cons in a different set of financial circumstances.

Financial Leverage has always been a favorite topic with the business community as well as the academia. It evokes a full gamut of responses from both the teaching community and the business community. To fully gauge this diversity of opinion and body of work, several books, journals and articles were reviewed to undertake theoretical study of Financial Leverage and its impact on Financial Performance of corporate entities. In this study utmost care has been taken to include as diverse literature as possible on the theoretical aspect of the topic and findings and exploratory studies.

In marketing the concept of Product Life Cycle (PLC) prevails. According to this concept every product undergoes four stages during its entire life, as it were. The stages begin with introduction of the product and end with death or decline of the product. In a similar fashion, every business entity has to pass through different stages. In the initial stages the degree of Financial Leverage should be rationally incorporated. The debt as a source of fund has to be rationally employed or else it can endanger the survival of the firm in the very first stage of its inception. As the business unit gets more stable, mature and growth bound with greater certainty of income, it can enhance the debt element in its capital structure. However a firm facing dwindling of financial performance due to intense competition or stagnation cannot afford to resort to debt funding. Thus all the firms must take the call on use of debt with utmost care and caution.

Impact of Financial Leverage on Firms' Profitability

A lot of research has already been conducted on the impact of financial leverage on firm profitability. Titman & Wassels (1988) concluded in his study that firms which use their earnings instead of taking outside capital earn more profit because of less leverage as compare to the firms which rely more on outside capital which increase their leverage. Firm performance can be depicted by the price of its

stock. If stock price of the firm is high than firms prefer to issue equity instead of taking outside capital that helps them to maintain their leverage. Wald (1999) in his research study argued that debt to assets ratio has significant negative relation with the firm profitability. He did his study on the firm's capital structure which operates in United State, United Kingdom, Japan, France, and Germany. He used firm size, growth and firm's riskiness as explanatory variables.

Sheel (1994) in his study also supported the negative relation between debt to assets ratio and firms past profitability. He used cross sectional regression analysis to study the leverage behavior of 32 firms in two industry groups, Hotel industry and manufacturing sector was examined. His findings confirmed that all leverage determinants except firm size are significant in explaining leverage variations in debt behavior.

Eunju & Soocheong (2005) studied the relationship between profitability, financial leverage and size of the firm in restaurant industry. He took study period from 1998 to 2003 by using ordinary least square method. The aim of this study was to analyze the association between financial leverage and restaurants firm profitability and risk. For the sake of the achievement of objective of this study, he made three hypotheses. The first hypothesis was restaurant firms using a lower level of financial

leverage have higher profitability. If a restaurant firm has a higher level of financial leverage than it has to spend large amount as interest expense despite the business situation. Second hypothesis was; firms with a higher level of financial leverage are riskier than those with a lower level of financial leverage. In his study he applied return on equity as a measure of profitability and financial leverage as a ratio of long term debt to total assets and total assets as firm size. Results of the study suggested that the restaurant firms having large assets were more profitable than small firms and the sign of financial leverage variable was negative which indicated that firms with higher debt rates were less profitable.

Mandelker & Rhee (1984) explained that the most profitable firm in many industries often have the lowest leverage ratio also found that large positive abnormal returns for a firm's stockholders are associated with leverage increasing events such as a stock repurchase or debt for equity exchange instead of leverage decreasing events such as issuing stocks. In contrast to the tradeoff theory, the pecking order theory of capital structure states that firms have a preferred hierarchy for finding decisions. The highest preference is to use internal financing such as retained arnings before restoring to any external funding. If a firm uses external funding the order of preference is debt, convertible securities, preferred stocks and common stock (Myers, 1984). Most studies of capital structure used a basic assumption of trade off theory. After selecting an optimal combination of financing which could be the combination of debt and equity way to gathering funds that deliver the tax benefit given by the debt which increased costs of financial distress to the equity holders of the firms. Firms need to have the target structure of capital.

Larry & Stulz (1995) conducted a study on the effect of debt on firms in Ghana which resulted positive significant association between total debt and total assets and return on equity. A study carried out by Murphy (1968), on financing behavior of listed Chinese firms resulted in a conclusion that a negative relationship between profitability and firms leverage exists. A higher rate of return on equity capital should produce in turn more rapid growth of earnings and dividends and higher valuation of the common stock. The return on equity capital, growth of earnings and dividends and the market's valuation of the firm's common stock are all directly tied to the leverage as far as theory is concerned. It is revealed that proportion of leverage in a firm's capitalization would be directly related to its relative return on common equity, growth of earnings, price appreciation and market valuation. Leverage also had no appreciable effect on market valuation. The long term debt to total capital ratio was generally unrelated to a firm's relative price to earnings ratio and to dividend yield on its common stock in all industries and all time periods. There were some tendency to the market to value highly leveraged companies at lower rather than higher prices in terms of price to earnings multiple and dividend yields.

Gupta (1969) in his study explained that debt is considered as a way to highlight investors trust in the company, if a company issues debt it provides a signal to the markets that the firm is expecting positive cash flows in the future. The principal and interest payments on debt are fixed contractual obligation

which the firm has to pay out of its cash flows. Therefore, higher level of debt shows the manager confidence in future cash flows. Another impact of the signaling factor is the peeking order theory is the problem of the underpricing of equity. If a firm intends to issue equity instead of debt for financing future projects the investors will interpret the signal negatively. Since managers have superior information about the firm than investor they might issue equity when it is over-priced.

Amsaveni (2009) reported that there exists a negative relation between leverage and future growth

This relation is negative for firms whose growth opportunities are either not recognized by the capital markets or are not sufficiently valuable to overcome the effects of their debt overhang. They also confirmed that leverage does not reduce growth for firms known to have good profit opportunities. To examine the relationship between leverage and growth they used dataset over a period of 20 years and they found a strong negative relationship between them.

Mangalam & Govindasamy (2010) analyzed and understand the impact of leverage on the profitability of the firm by investigating the relationship between the leverage and the earning per share. He analyzed leverage in three ways which were financial leverage, operating leverage and combine leverage. For analysis purpose he took seven public limited companies listed on the Bombay stock exchange. These were ACC Cement, Chettinad Cement, India Cements, Dalmia Cement, Ambuja Cement, Birla Cement and Prism Cement. He took the period of seven years for analysis. He used Analysis of Variance (ANOVA) as analysis tool in his study. He evaluates the hypothesis of relationship between degree of financial leverage and earnings per share. Operating leverage is caused due to fixed operating expenses in a firm. It is the firm's ability to use fixed operating costs to magnify the effects of changes in sales on its earnings before interest and taxes. Financial leverage is caused due to fixed financial costs in firm. It is the ability of the firm to use fixed financial charges to magnify the effects of change in EBIT on the earning per share. It involves the use of funds obtained at a fixed cost in the hope of increasing the return to the shareholders. The financial leverage employed by the company is intended to earn more return on fixed charge funds than their costs. There is a close relation exists between the financial leverage and earnings per share of the company. If degree of financial leverage is high and the return on investment is greater than the cost of debt capital, then the impact of leverage on EPS will be favorable. The impact of financial leverage is unfavorable when the earning capacity of the firm is less than what is expected by the lender. The results suggest that there is a significant negative relationship exists between financial leverage and earnings per share. The leverage effect is positive when the earnings of the firm are higher than the fixed charges to be paid for the lenders. The leverage is an important factor which is having impact on the profitability of the firm and the wealth of the shareholders can be maximized when the firm is able to employ more debt.

Baker (1973) analyzed that effect of financial leverage or relatively greater use of debt capital, on industry profitability. This study developed and tested a model consisting of two equations, one explaining industry profitability in terms of the usual market structure variables plus leverage and the other one was a new equation incorporating risk variables to explain leverage. He measured inversely as the ratio of equity to total assets for the leading firms in an industry over ten years. First he used two stages least square method of estimation which shows leverage is significant and has the theoretically correct negative sign which means low amounts of leverage tend to raise industry profit raises. Secondly he used ordinary least square estimation which also indorsed the same results.

Bhat (1980) made an attempt to analyze the determinants of financial leverage and to investigate the relationship between the leverage ratio and institutional characteristics viz. firm size, variation in income, growth, profitability, debt service and dividend payout through correlation and regression analysis. The cross-section data for this study were collected for six years from 1973 to 1978 from only one industry i.e., Engineering Industry, so as to alleviate the effect of industry type on the financial leverage ratio. The study reveals that firm size, growth rate and the degree of operating leverage does not have any significant relationship with financial leverage whereas earnings rate, business risk, dividend payout ratio and debt service ratio have been found to be negatively related. Only the relation of operating leverage has been found positive but insignificant relationship. The study observed that the institutional characteristics are important determinants of financial leverage ratio.

Ezeoha (2008) studied the nature and significance of the firm size as a determinant of corporate financial leverage from an undeveloped market prospective. The key variables he used in the study were firm size, financial leverage ratios, with profitability, firm age, and assets tangibility as control variables. Financial leverage served as dependent variable while the other used as independent variables. He used financial leverage in three forms which were short term financial leverage measured as short term debt to total assets ratio, long term financial leverage measured as long term debt to total assets ratio and total financial leverage measure as total debt to assets ratio. Firm size was measure as the natural logarithm of the firm. Assets tangibility was measured as the ratio of fixed assets. He analyzed 71 firms listed on Nigerian Stock Exchange over a 17 years period from 1990 to 2006. The results affirm that relationship between profitability and financial leverage is highly significant and negative which means that firms that are more profitable are very much likely to rely on internal capital in financing their operations.

Capital structure can be defined as the mixture of firm's capital with debt and equity and it has been one of the most argumentative subjects in corporate finance, since the outstanding study of Modigliani and Miller in 1958 (Bevan and Danbolt, 2004). Many theories have been developed in the literature of finance for examining the determinants of capital structure and these theories focus on identifying the significant determinants which are likely to have a major role in the leverage decision. Previous studies have shown that a number of factors affect firm's capital structure choice, such as tangibility, tax, size, profitability, growth, non-debt tax shield, volatility etc. In their illustrious work, Harris and Raviv (1991) summarizes that —leverage increases with fixed assets, non debt tax shields, investment opportunities and firm size and decreases with volatility of earnings, advertising expenditure, the probability of bankruptcy, profitability and uniqueness of the product!. However, the relationship between the factors and capital structure is not consistent. Many empirical researchers have explored the determinants of capital structure from different point of views and in different environments related to developed and developing economies. The empirical results vary and sometimes contradict in many studies. It is still debated what are the significant determinants of capital structure and how they impact capital structure decision, even though various studies have been conducted on the relevant subject.

Uppal Jamshed Yunas (1990) made an empirical investigation of debt and taxes in a multi-period framework, developed a multi-period model of capital structure choice when firms are faced with uncertain cash flows. He employed OLS regression using a pooled sample of 19 years of time series and cross-sectional data of 431 companies. The result of the study largely supported the hypothesis that taxes systematically affect capital structure policies and bond market equilibrium. Tests using pooled data indicated no significant relationship between growth and financial leverage. The study also presented evidence that factors other than taxes such as asymmetric information; agency costs affected the financial leverage choice. This suggests that different capital structure theories may compliment rather than compete with each other.

Koralekar (1990) analyzed the capital structure of the manufacturing central public enterprises started on or before 1976. The study concluded that the pattern of capital structure of manufacturing public enterprises was not uniform irrespective of their industry class, profitability and size. This study reveals that the capital structure was different within the groups of industry class, profitability or size, due to different debt proportions in their financing. Reduction in the share of government loans, insignificant increase in raising of funds from foreign sources and introduction of new sources of finance like bonds and deposits were noticed as a part of the trend in the financing of the public enterprises.

Kester and Kolb (1991) analyzed the ownership structure of US and Japanese manufacturing firms. The relationship between leverage, capital structure and profitability were studied by applying correlation analysis. The study found that leverage was negatively correlated with profitability both in US and Japan during the study period.

Nazeer Mazhar (1991) conducted a study to examine the extent to which variation of corporate debt ratios can be significantly explained by some specific factors like growth, firm size, asset composition, profitability, dividends, operating leverage and industry class. The study employed linear-regression model on a pooled time-series and cross-sectional data. He also used one-way analysis of variance in order to find mean debt ratio differences both among and within the industries. Profitability was found to be negatively related to debt ratio. Firm size was found to be positively associated to the use of debt. Dividend payments, asset composition and operating leverage in general were found to be unrelated to corporate debt. Industry class was not found to be significant determinant of a firm's use of debt capital. Jain (1995) examined the factors affecting capital structure. He found that factors like profitability, liquidity, size and asset structure have a bearing on the design of the capital structure of the firm. These factors differ from one industry to another industry and even from one firm in the same industry.

Rajan and Zingles (1995) in their study, —What do we know about capital structure? Some evidence from international datal, have used four determinants of corporate leverage viz., tangibility, growth, size and profitability and tested their influence on leverage. The cost of informational asymmetry is higher for large firms and it is more difficult for them to raise external finance and they have also absorbed empirically a significant positive relationship between size of the firm and debt equity ratios.

Rani (1997) in her Ph.D. thesis used backward multiple regression model to identify significant variables affecting capital structure by considering leverage ratio as dependent variable. The independent variables were size, growth, operating leverage, business risk, profitability, dividend payout ratio, debt coverage and cash flow coverage. She concluded that while designing capital structure of a firm, the companies give prime importance to the size, growth, business risk, tax shield, profitability and dividend payout ratio.

Wald (1999) examined the characteristics of firms in relation to leverage and found that these characteristics were not similarly correlated with leverage across countries. He demonstrated that institutional differences could contribute to the differences in capital structure. His results indicate that institutions may significantly influence firms' capital structure decision and that agency and monitoring problems existing in every country, may create different outcomes. He found that tangibility is positive in the US, Japan, UK, Germany and France. The study also found that there is a positive relationship between growth opportunities and debt in developed countries because fast growing firms use more debt in its capital structure.

Samarakoon (1999) examined the determinants of leverage in a cross section of listed companies in Sri Lanka using a sample of firms listed in the Sri Lanka Stock Exchange. The results indicate that the use of long term debt is relatively low. The tangibility and growth opportunities are not related to leverage. Firm size is reliably positively related to leverage indicating a tendency for large firms to use more leverage. Profitability is negatively correlated to leverage suggesting that more profitable firms tend to use less leverage.

Kakani (1999) in his study — The determinants of capital structure: An econometric analysis" has found that profitability and capital intensity are negatively associated with leverage, but absorbs no significance of firms' diversification strategy and size in deciding the leverage of the firm.

Pandey (2001) examined the determinants of capital structure of Malaysian companies utilizing data from 1984 to 1999. The results of pooled OLS regressions show that profitability, size, growth, risk and tangibility variables have significant influence on all types of debt. These results are normally consistent with the results of fixed effect estimation with the exception that risk variable loses its significance. Unlike the evidence from the developed markets, investment opportunity (market-to-book value ratio) has no significant impact on debt policy in the emerging market of Malaysia. Profitability has a persistent and consistent negative relationship with all types of debt ratios in all periods and under all estimation methods. This confirms the capital structure prediction of the Pecking Order theory in an emerging capital market.

Veni and Narayana (2002) examined the leverage position of firms to know the impact of fixed charges on EBIT and EPS. They also analysed the capital structure policies and dividend policies and its impact on market price per share. They found that there is no considerable relationship between leverage and EPS. They concluded that fluctuations in the market price of the share influences the capital structure decisions and dividend decisions to some extent.

Garg and Shekhar (2002) analyzed the debt structure of four large scale manufacturing industries from Indian corporate sector (viz. cotton, chemical and pharmaceutical, engineering and cement industry) over a period of ten years and attempt to underline the determinants of capital structure. The study reveals that asset composition, collateral value of the assets, life of the company and the corporate size were most significant factors in determining the capital structure of Indian firms and business risk has no significance in deciding the leverage of the firms.

Voulgaris, F. Asteriou and Agiomirgianakis (2002) applied dynamic panel data techniques to study the capital structure, asset utilization, profitability and growth of the Greek manufacturing sector. The findings suggest that asset utilization, gross and net profitability and total assets growth have a significant effect on the capital structure of LSEs. This has straightforward policy implications. Following recent economic developments, Greek firms are exposed to a stronger competition in the

European Union and global markets, but also to new opportunities. In order to improve their capital structure, Greek manufacturing LSEs need to achieve higher asset utilities and profit margins through economies of scale attained mainly by higher exports. Moreover, governmental measures aiming to support LSEs efforts should focus their impact on alleviating taxation, reducing bureaucratic burdens, minimizing market imperfections and subsidizing applications of new technology.

Samuel Gui Hai Huang and Frank Song (2002) employed a new database, which contains the market and accounting data from more than 1000 Chinese listed companies up to the year 2000 to document the characteristics of these firms in terms of capital structure. As in other countries, leverage in Chinese firms increases with firm size, non-debt tax shields and fixed assets, and decreases with profitability and correlates with industries. It is also found that ownership structure affects leverage. Different from those in other countries, leverage in Chinese firms increases with validity and firms tend to have much lower long-term debt. The static tradeoff model rather than pecking order hypothesis seems better in explaining the features of capital structure for Chinese listed companies.

Alan, A. Bevan and Jo Danbolt (2002) analysed the dynamic capital structure of UK companies from 1991 to 1997. They observed significant changes in the relative importance of the various debt elements over time, as well as changes in the relationship between gearing and the level of growth opportunities, company size, profitability and tangibility. The results suggest that the nature of the credit market in the UK has changed significantly during the 1990s, with large companies using less bank finance, and banks increasingly lending to smaller firms. At the same time, bank debt appears to have become more closely related to corporate profitability and collateral values.

Gavin Cassar and Scott Holmes (2003) investigated the determinants of capital structure and usages of financing for small and medium sized enterprises. Hypotheses utilizing static trade off and pecking order arguments are empirically examined by using a series of firm characteristics including size, asset structure, profitability, growth and risk. The hypotheses developed are tested using a large Australian nationwide panel survey. The results suggest that asset structure, profitability and growth are important determinants of capital structure and financing. The results generally support static trade-off and pecking order arguments proposed by theoretical models.

Jitendra Mahakud and Bhole (2003) used dynamic panel data model, more specifically, the General Methods of Moments (GMM) model for an empirical study of the capital structure in case of private corporate sector in India. The result suggests that the variables like the lagged leverage ratio, the cost of borrowing, the cost of equity, the size of the firm, the collateral value of assets, the liquidity and the nondebt tax shields are the major determinants of corporate capital structure in India.

Bevan and Danbolt (2004) tested the inconsistencies in the estimation of U.K. capital structure determinants with the help of correlation and regression techniques. They have taken leverage as dependent variable and profitability as independent variable. They found that there was a negative relationship between leverage and profitability.

Keshar, J. Baral (2004) made an attempt to examine the determinants of capital structure; size, business risk, growth rate, earning rate, dividend payout, debt service capacity and degree of operating leverage of the companies listed in Nepal Stock Exchange. Multiple regression models have been used to assess the influence of defined explanatory variables on capital structure. In the preliminary analysis, manufacturing companies, commercial banks, insurance companies and finance companies were included. However, due to the unusual sign problem in the constant term of the model, manufacturing companies were excluded in final analysis. This study shows that size, growth rate and earnings rate are statistically significant determinants of capital structure of the listed companies.

Chen (2004) examined the determinants of capital structure of Chinese listed companies to find the factors that influence the capital structure of firms. The finding shows a positive relationship between leverage and tangibility. A positive correlation between the growth of total assets and leverage also indicate that firms specifically with growth opportunities tend to hold more debt, as a result which contradicts a great ideal of literature. Capital structure models also suggest that managers use leverage to signal firm prospects to poorly informed outside investors who believe these signals, because they are prohibitively costly for weak firms to mimic.

Sharma, Thenmozhi and Preethi (2004) found that firms using non-traditional debt have higher leverage and presence of traditional debt has a positive influence on financial leverage. The relationship is robust to control the determinants of leverage and accounting for non-traditional debt increases the ability of the model to explain cross sectional leverage. They also found that the firm's size, cash constraint, profitability, market to book ratio, volatility of earnings and bankruptcy costs determine firms with non-traditional debt and also those without non-traditional debt.

Joshua Abor (2005) in his article, —The effect of capital structure on profitability: an empirical analysis of listed firms in Ghanal, analysed the impact of leverage on profitability. Correlation technique was applied and the findings of the study evidenced that there was a positive correlation between leverage and profitability during the study period.

Philippe Gaud et al., (2005) in their study —The Capital Structure of Swiss Companies: An Empirical Analysis Using Dynamic Panel Datal analyzed the determinants of the capital structure for a panel of 104 Swiss companies listed in the Swiss stock exchange. Dynamic tests were performed for the period 1991-2000. It was found that the size of companies and the importance of tangible assets are positively related to leverage, while growth and profitability are negatively associated with leverage. The sign of

these relations suggest that both the pecking order and trade-off theories are at worth in explaining the capital structure of Swiss companies, although more evidence exists to validate the latter theory. The analysis also showed that Swiss firms adjust towards a target debt ratio, but the adjustment process is much slower than in other countries.

Falguni, C. Shastri (2005) in his empirical study —Capital Structure of Indian Corporate Sector^{II} with reference to the listed joint stock companies in the Bombay stock exchange over a period of 10-years found that the results did not support the NI approach and the second version of MM Hypothesis. However, the conclusions drawn on the basis of the hypotheses supported the Net operating income approach and the first version of the MM hypothesis. This implies that the maneuverability of financial leverage in the capital structure of the companies is an independent factor and does not have a conclusive functional relationship with the cost of capital, the P/E ratio and the valuation of the firms separately. Furthermore, the valuations of the companies are not completely dependent factor on the degree of financial leverage, overall cost of capital and P/E ratio collectively.

Sudhansu and Omkarnath (2005) made an attempt to examine whether any shift has taken place in the financing pattern of the Indian corporate sector after the implementation of financial liberalization in early 1990s. Finally, the study discusses the factors that determine the debt- equity choice of Indian private sector firms. They have used the method of ordinary least square to empirically analyse the given objective. They found that Indian context presented a very different result, as compared with the findings of literature in the developed countries on capital structure. They concluded that the profitability and asset structure were found to be the most significant factors deciding the capital structure, instead of firm size and growth opportunity.

Chandrasekar Mishra (2005) found that the capital structure of the profit making public sector units are affected by asset structure, profitability and tax, unlike the suggestion of pecking order hypothesis, growth is positively related to leverage. As predicted by the theory, asset structure and profitability are respectively positively and negatively related to leverage. In contradiction to the theory, tax and leverage are negatively related. Firms with less effective tax rate have gone for more debt. None of the other variables like Non-debt tax shield, volatility and size were found to be significant.

Vungale Narender and Abhinav Sharma (2006) made an attempt to study the capital structure policies adopted by the profit making central public enterprises. It is found that the tangibility of assets plays a significant role in determining the leverage of the public enterprises for expansion and development; public enterprises are using internal resources instead of debt. The study also revealed that public enterprises are mobilizing long-term resources for meeting short-term requirements. They concluded

that the public enterprises are following pecking order theory for framing the capital structure policies.

SriRam and Shankar (2006) found that the companies were relying more on internally generated funds and they have only a small portion of debt in their capital structure. The major factors, which were influencing the capital structure decision are composition of fixed assets and the earning potential of the organization. The capital structure decision has an effect on the profitability of the organization.

Duglas and Alan (2006) studied an incentive-aligning role of debt in the presence of optimal compensation contracts. Empirically, the analysis predicts a negative relationship between leverage and market-to-book that is reversed at extreme market-to-book ratios, a negative relationship between leverage and profitability, a negative relationship between leverage and pay-for-performance and a positive relationship between pay-for-performance and investment opportunities.

Syed Tahir Hijazi and Yasir Bin Tariq (2006) made an attempt to determine the capital structure of listed firms in the cement industry of Pakistan. The study finds that a specific industry's capital structure exhibits unique attributes which are usually not apparent in the combined analysis of many sectors as done by Shah and Hijazi (2005). The study took 16 out of 22 firms in the cement sector listed at the Karachi stock exchange for the period 1997-2001 and analyzed the data by using pooled regression in a panel data analysis. Among the four independent variables i.e. firm size (measured by natural log of sales), tangibility of assets, profitability and growth, the firm size is found to be highly significant. Huang and Song (2006) studied the determinants of capital structure of Chinese companies for the

periods of 1995 to 2004. They have applied regression analysis to study the relationship between leverage and profitability. They found that there was a negative correlation between leverage and profitability of Chinese listed companies during the study period.

Martin Hovey (2007) studied liquidity, profitability and ownership structure of listed firms in China. Regression analysis was used to find the relationship between the variables like liquidity, profitability and ownership structure during the periods 1997 to 2005. The study concluded that leverage has a significant relationship with profitability.

Frank and Goyal (2007) examines the relative importance of various factors in the leverage decisions of publicly traded American firms from 1950 to 2003. The most reliable factors were median industry leverage (positive effect on leverage), market-to-book ratio (negative), tangibility (positive), profits (negative), log of assets (positive) and expected inflation (positive). The empirical evidence seems reasonably consistent with some versions of the Trade-off theory of capital structure.

Mallikarjunappa (2007) in his study —Factors Determining the Capital Structure of Pharmaceutical Companies in Indial, made an attempt to test the important determinants of the capital structure of companies taking profitability, collateral value of assets, growth, debt services capacity, size, tax rate, non-debt tax shield, liquidity, uniqueness and business risk as the determinants and the Debt-Equity Ratio (DER) as the dependent variable. Multiple regression models were used for the pooled data of pharmaceutical companies in India. The period of study was from 1993 to 2002. The result indicated that the regression was a good fit and the independent variables together determine the capital structure of companies.

Joshua Abor (2007) investigated the relationship between capital structure and profitability of listed firms on the Ghana Stock Exchange (GSE). The results revealed a significantly positive relationship between the ratio of short-term debt to total assets and ROE. However a negative relationship between the ratio of long-term debt to total assets and ROE was found .With regard to the relationship between total debt and return rates, the results showed a significantly positive association between the ratio of total assets and return on equity. Further, profitability, collateral value of assets, growth, size, tax rate and uniqueness do not have significant co-efficient and therefore, are not the significant determinants of the capital structure of companies. The co- efficient of the variables, debt service capacity, non-debt tax shield, and liquidity and business risk are significant and therefore, these variables are the important determinants of the capital structure of Pharmaceutical companies in India.

Ying Hong Chen (2007) analysed the factors influencing a firm's leverage. They used market capital ratio, book capital ratio and book debt ratio as measures of leverage. They compared the factors influencing firm's leverage using unbalanced panel data of seven countries: Canada, Denmark, Germany, Italy, Sweden, UK, and the US. They found the firm size, tangibility are positively related to leverage while profitability shows a negative relationship on leverage across all seven countries. More profitable firms tend to borrow less. Evidences found from the seven countries are consistent with the findings in conventional capital structure theories, for example the pecking order theory and the static trade off theory, i.e. risky firms borrow less.

Attaullah Shah and Safiullah Khan (2007) made an attempt to find the determinants of capital structure of KSE listed non-financial firms for the period 1994-2001. Pooled regression analysis was applied with the assumption that there is no industry or time effect. They used six explanatory variables to measure their effect on leverage ratio. Three of the variables were significantly related to leverage ratio whereas the remaining three variables were not statistically significant in having relationship with the debt ratio. The results approved the prediction of trade-off theory in case of tangibility variable whereas the earning volatility and depreciation variables fail to confirm to trade-off theory. The growth variable confirms the

agency theory hypothesis whereas profitability approves the predictions of pecking order theory. Size variable neither confirms to the prediction of trade-off theory or asymmetry of information theory.

Yanmin qian (2007) examined the determinants of the capital structure. They used static panel data models for the analysis of the firms' capital structure with both unobserved cross-sectional and time effects as well as industry effects. The results showed that in the publicly listed Chinese firms the adjustment process was very slow. It is also found that firm size, tangibility and ownership structure are positively associated with firm's leverage ratio, while profitability, non- debt tax shields, growth and volatility are negatively related to firm's leverage ratio. Lastly, they found that lagged profitability has a negligibly small and positive impact on firm's leverage ratio.

Boopen Seetanal, Kesseven Padachi and Rishi Ronoowah (2007) made an attempt to investigate the determinants of capital structure for the small Island developing state of Mauritius, using firms listed on the stock exchange of Mauritius over the years 1994-2004. The results of the study revealed that certain firm- specific factors which explain capital structure in developed countries, are also relevant to a small Island economy like Mauritius. The analysis showed that most important firm-specific factors that influence capital structure choice are profitability, size, tangibility and liquidity. Other factors like business risk, non-debt tax shield effects and growth opportunities do not seem to affect the capital structure decision of corporate firms. The result also showed that, there was an inverse relationship between pre-tax weighted average cost of capital and the capital structure of a firm. In case of cost of capital the irrelevancy theorem of Modigliani and Miller does not seem to hold good for Indian industries.

Christina (2008) conducted a research to determine the nature of capital structure across non- finance industries in Indonesia, whether they prefer to use debt or equity as their source of financing. he findings of the study confirm that, first of all capital structure varies across industries. Each industry would have different decisions regarding its optimal capital structure depends on several factors. This leads to the second findings in which it proves that there is negative significant relationship between profitability and leverage, positive significant relationship between company's size and leverage and negative relationship between dividend payout and leverage. Finally, this research also verified that there was no relationship between leverage and company's growth of share price, which means that the growth of share price was not influenced by the company's capital structure decision.

Gunasekaran (2008) in his article studied the major factors influencing the capital structure of Indian industries. He found that collateral value of assets and liquid assets in aluminum industry; corporate size, liquid assets and business risk in automobile industry; growth rate and liquid assets in cement industry; profitability and trading on equity in chemical industry; business risk and debt service capacity
in Electronics industry; trading on equity in engineering industry; trading on equity, asset structure and corporate size in IT industry; collateral value of assets in leather industry; liquid assets and asset structure in paper industry have affected the capital structure. The collateral value of assets has maximum influence on the capital structure among the public sector companies and asset structure has similar influence on capital structure among the private sector companies.

Ayesha Mazhar and Mohamed Nasr (2008) discussed the determinants of capital structure of Pakistani firms. They have selected a sample from Pakistani companies registered on Islamabad stock exchange. They divided the samples into two sub-samples of private and government owned companies to make companies between both sectors. The sample comprise of 91 Pakistani companies out of which 80 companies are private and 11 are government owned covering the period of 1999-2006. Tangibility, size, growth rate, tax provision, return on assets and profitability are used as independent variables, while leverage is the dependent variable. The results imply that government owned companies employed more leverage than private companies.

Yuanxin Liu and Jing Ren (2009) identified the determinants of corporate financial structure for the IT industry in China which is a promising service industry but is facing challenges and risk in the Global financial turmoil. They analyzed the determinants of the capital structure for a panel of 92 IT companies listed in the China stock exchange. Six traditional explanatory variables were adopted in the study including size, profitability, tangibility, liquidity, growth rate and growth opportunity. It was found that the size of companies is positively related to leverage, while growth, profitability, liquidity, profit growth rate and opportunity are negatively associated with leverage. The sign of these relations suggest that both the pecking order theory and trade-off hypothesis are at worth in explaining the capital structure of IT companies in China.

Mahdi Salehi (2009) studied the relationship between capital structure measures and performances of firms which are listed in Tehran Stock Exchanges in Iran. The variables studied are capital structure, return on investment and return on equity. The results of correlation concluded that firms' profitability is negatively correlated with financial leverage.

Bidjut Jyoti Bhattacharjee (2010) conducted an empirical investigation into the determinants of capital structure of Indian industries. Panel data methodology has been applied to determine to what extent the macro-economic determinants affect debt equity ratios under various grouping such as size, growth, profitability, liquidity and dividend payout. He found that liquidity and growth in terms of performance of the firm have significant influence on debt equity ratio. Further, the results from econometrical analysis reveal that determinants are industry specific which imply that the weight of the explanatory variables varies from sector to sector.

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 cross-sectional 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. Further, tests show that agency costs, financial flexibility and capital investments have different effects on adjustment process for multinational corporations relative to domestic corporations.

CHAPTER 4

METHODOLOGY OF THE STUDY

4.1 Research Approach and design

Research means search for knowledge. It aims at discovering the truth. It is an essential and powerful tool in leading men towards progress. It is an original contribution to the existing stock of knowledge. It is undertaken to discover answers to questions by applying scientific method. It is the search for knowledge through objective and systematic method of finding solution to problems. Therefore research is a process of systematic and in depth study of search of any particular topic, subject or area of investigation backed by collection, computation, presentation and interpretation of relevant data. For any research assignment, a proper planning is required and the same holds true in case of present study.

Research methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. In it we study the various steps that are generally adopted by a researcher in studying his/her research problem along with the logic behind them. It is necessary for the researcher to know not only the research methods/techniques but also the methodology. Researchers not only need to know how to develop certain indices or tests, how to calculate the correlation, ratios, trend indices how to apply particular research techniques, but they also need to know which of these methods or techniques, are relevant and which are not, and what would they mean and indicate and why.

Researchers also need to understand the assumptions underlying various techniques and they need to know the criteria by which they can decide that certain techniques and procedures will be applicable to certain problems and others will not. All this means that it is necessary for the researcher to design his methodology for his problem as the same may differ from problem to problem. For example, an architect, who designs a building, has to consciously evaluate the basis of his decisions, i.e., he has to evaluate why and on what basis he selects particular size, number and location of doors, windows and ventilators, uses particular materials and not others and the like. Similarly, in research the scientist has to expose the research decisions to evaluation before they are implemented. He/she has to specify very clearly and precisely what decisions he/she selects and why he/she selects them so that they can be evaluated by others also. The methodology used in the study involves the collection of secondary data.

Research Design

A research design is a plan that specifies the source and type of information relevant to the research problem. It is a strategy specifying which approach will be used for gathering and analysing data.

Descriptive, analytical, empirical and quantitative researches have been followed. Descriptive research includes surveys and fact finding enquiries of different kinds. The major purpose of descriptive design is the description of the state of affairs as it exists at present. In descriptive research design a researcher is interested in describing a situation or phenomena under his study. It is a theoretical type of researcher design based on the collection designing and presentation of the collected data. The main characteristic of this type of design is that the researcher has no control over the variables. In analytical research one has to use facts or information already available and analyze these to make a critical evaluation of leverage. Empirical research relies on experience or observation alone. In empirical research, the researcher has to first set up a hypothesis or guess as to the probable results. He then works out to get enough facts to prove or disprove his hypothesis. Quantitative research is applicable to phenomena that are measurable so that they can be expressed in terms of quantity

Various questions related to the organization were collected from the information available in the internet. Other details were collected from the annual report of Canara Bank that have published and also the books that are provided information on history and functioning of the organization. Discussions with employees working in different sections of the organization as well as referencing the annual report helped in understanding the impact of leverage.

- Nature of Data: Secondary Data
- Area of Study: Canara Bank

4.2 Sources of online data

As soon as a researcher defines a research problem and checks out research design, he starts collecting data. Researcher can collect his required information from the two sources namely primary and secondary. Thus he is provided with two types of data known as primary and secondary data.

When the researcher himself is trying to collect the data for his particular purpose from the sources available, it becomes primary data. Secondary data are those which have been collected by some other person for his purpose and then published. For Example: When the Agriculture Department collects data for the study of yield obtained in respect of various agricultural products in a locality, it is primary data for them. When they publish such data in their journals and if a researcher makes use of that information for his purpose, he can be said to be using secondary data.

The present research plan calls for gathering secondary data for reaching the final results through data analysis and interpretation.

The secondary data were available from:

- Annual reports
- Journals
- Books
- Internet

4.3 Data analysis tools

- Ratio Analysis
- Trend Analysis

The most convincing & appealing ways in which data may be presented are tables, charts & pictures. Pictorial representation helps in quick understanding of the data. Charts have greater memorizing effect as the impression is created by the figure. A chart can take the shape of either a diagram or a graph.

To analyze the collected data, simple tool of percentage methods issued. The study diagram representations are adopted. The data are presented through different types of diagram are as follows

- 1) Table
- 2) Charts 3) Bar diagram

4.4 Report Structure

| 01 | Introduction – Statement of the Problem | | | |
|----|---|--|--|--|
| | | | | |
| | 1.1 Background of the Study | | | |
| | 1.2 Statement of the Problem | | | |
| | 1.3 Relevance & Scope of the Study | | | |
| | 1.4 Objectives of the Study | | | |
| 02 | Industry Profile | | | |
| | | | | |
| | 2.1 Business Process of the Industry | | | |
| | 2.2 Market Demand & Supply – Contribution to GDP – Revenue | | | |
| | Generation | | | |
| | 2.3 Level and Type of Competition – Firms Operating in the Industry | | | |
| | 2.4 Pricing Strategies in the Industry | | | |
| | 2.5 Prospects and Challenges of the Industry | | | |
| | 2.6 Key Drivers of the Industry | | | |
| 03 | Review of Literature | | | |
| | | | | |
| | 3.1 Brief Theoretical Construct related to the Problem | | | |
| | 3.2 An Overview of Earlier Studies | | | |
| | 3.3 Uniqueness of Research Study | | | |

| 04 | Methodology of the Study |
|----|--|
| | 4.1 Research Approach and design |
| | 4.2 Sources of Online Data |
| | 4.3 Report Structure |
| | 4.4 Limitations of the Study |
| 05 | Discussion |
| | |
| | 5.1 Observations by the Candidate from Literature Review Comparisons |
| | 5.2 Logical Conclusions related to the Business Problem |
| | |
| 06 | Findings of the Study |
| 07 | Conclusions |
| 07 | |
| | Bibliography |

- 1

4.5 Limitations of the study

The findings of this study are limited from the following aspects:

- > This study investigated only for five year period
 - ➢ In this study, only selected ratios are used
- > Data mismatch in some records due to data entry errors
 - > Unavailability of full-fledged data from the firm

44

CHAPTER 5

DATA ANALYSIS, INTERPRETATION AND INFERENCE

Ratio Analysis

A ratio is a simple arithmetical expression of the relationship of one number to another. In simple, language ratio is one number expressed in terms of another and can be worked out by dividing one number into the other. i.e., ratio is an expression of the quantitative relationship between two numbers. The ratio analysis is one of the most powerful tools of financial analysis. It is the process of stabling and interpreting various ratios. It is with the help of ratios that the financial statements can be analyzed more clearly and decision made from such analysis. A financial ratio is the relationship between two accounting figures expressed mathematically.

Leverage Ratios

Leverage ratios represent the extent to which a business is utilizing borrowed money. It also evaluates company solvency and capital structure. Having high leverage in a firm's capital structure can be risky, but it also provides benefits.

Solvency ratios also known as leverage ratios determine an entity's ability to service its debt. Liquidity ratios compare current assets with current liabilities, i.e. short-term debt. Whereas solvency ratios analyze the ability to pay long-term debt.

The use of leverage is beneficial during times when the firm is earning profits, as they become amplified. On the other hand, a highly levered firm will have trouble if it experiences a decline in profitability and may be at a higher risk of default than an unlevered or less levered firm in the same situation. Finally, analyzing the existing level of debt is an important factor that creditors consider when a firm wishes to apply for further borrowing. Essentially, leverage adds risk but it also creates a reward if things go well.

A company's proportion of short-term debt versus long-term debt is considered when analyzing its capital structure. Capital structure ratios help investors analyze what would happen to their investments in the worst possible scenario. When analysts refer to capital structure, they are most likely referring to a firm's debt-to-equity (D/E) ratio, which provides insight into how risky a company's borrowing practices are. Usually, a company that is heavily financed by debt has a more aggressive capital structure and therefore poses greater risk to investors. This risk, however, may be

the primary source of the firm's growth. **Debt-Equity Ratio**

This ratio is ascertained to determine long- term solvency position of a company. Debt equity ratio is also called —external internal equity ratio. The ratio is calculated to measure the relative portion of outsider's funds and shareholders' funds invested in the company. The best equity ratio shows the long- term financial position of an organization. The debt to equity ratio measures the relationship between long-term debt of a firm and its total equity. Since both these figures are obtained from the balance sheet itself, this is a balance sheet ratio.

The debt-equity ratio holds a lot of significance. Firstly it is a great way for the company to measure its leverage or indebtedness. A low ratio means the firm is more financially secure, but it also means that the equity is diluted. A lower debt equity ratio implies that a company as a better capacity to meet in commitments. In contrast, a high ratio indicates a risky business where there are more creditors of the firm than there are investors. In fact, a high debt to equity ratio may deter more investors from investing in the firm, and even deter creditors from lending money. While there is no industry standard as such it is best to keep this ratio as low as possible. The maximum a company should maintain is the ratio of 2:1, i.e. twice the amount of debt to equity.

This ratio is calculated to measure the relative claims of outsiders and the owners against the firm's assets. This ratio indicates the relationship between the external equities or the outsider's funds and the internal equities or the shareholder's funds. Generally a debt- equity ratio of 1:1 is considered satisfactory.

| Shareholder's lunds | | | |
|---------------------|------------|--------------|-------------|
| Year | Debt (Cr.) | Equity (Cr.) | Ratio |
| 2015-16 | 506664.9 | 31,603.20 | 16.03207523 |
| 2016-17 | 534778.8 | 33,685.54 | 15.87561903 |
| 2017-18 | 563580.4 | 35,604.84 | 15.82875727 |
| 2018-19 | 640025.6 | 36,177.23 | 17.69139207 |
| 2019-20 | 668112.9 | 39,292.96 | 17.00337516 |

Debt – Equity Ratio = <u>Outsiders Funds</u>



Fig 4.1 Debt-Equity Ratio

An ideal debt equity ratio is —1^{II}. As from the above table it can be seen that the debt-equity ratio during the year 2015-16 was 16.03207523 and for the year 2016-17 the same was 15.87561903. While for the year 2017-18 the said ratio was 15.82875727 for the year 2018-19 the debt-equity ratio of the organization was 17.69139207 and for the last year 2019-20 the debt-equity ratio was 17.00337516. As from the above analysis, it can be seen that the debt equity ratio attained the satisfactory level under the years of study. During the years the ratio was higher than the standard norms. Since ratio of the organization was higher than the satisfactory level, it can be interpreted that the claims of outsiders are greater than those of owners. The increase of ratio's value is interpreted as a deterioration of company's creditworthiness (resulting from the increase of debt level),

Debt to Capital Ratio

A company's debt-to-capital ratio or D/C ratio is the ratio of its total debt to its total capital, its debt and equity combined. The ratio measures a company's capital structure, financial solvency, and degree of leverage, at a particular point in time. The data to calculate the ratio are found on the balance sheet. This ratio establishes a link between the long-term funds raised from outsiders and total long tern funds available in the business. Though there is no rule of thumb but still the lesser the reliance on outsiders the better it will be.

The higher the debt-to-capital ratio, the more debt the company has compared to its equity. This tells investors whether a company is more prone to using debt financing or equity financing. A company with high debt-to-capital ratios, compared to a general or industry average, may show weak financial strength because the cost of these debts may weigh on the company and increase its default risk. Similarly, a lower debt-to-capital ratio will indicate that significant portion of the company's capital is funded via Equity Capital. Generally, a company with lower debt-to-capital have greater flexibility in terms of raising additional capital via Debt. Hence, management tries to maintain a healthy capital structure that does not jeopardize the company Solvency.

Debt to Capital Ratio = $\underline{\text{Debt} * 100}$ Total Capitalization

Total Capitalization = Total Debt + Total Equity

| Year | Debt (Cr.) | Total Capitalisation (Cr.) | Ratio |
|---------|------------|----------------------------|----------|
| 2016-17 | 506664.88 | 538,268.10 | 0.989368 |
| 2017-18 | 534778.80 | 568,464.34 | 0.990053 |
| 2018-19 | 563580.37 | 599,185.24 | 0.988555 |
| 2019-20 | 640025.56 | 676,202.83 | 0.990026 |
| 2020-21 | 668112.94 | 707,405.86 | 0.990610 |

Table 4.2 Debt to Capital Ratio



Fig 4.2 Debt to Capital Ratio

As from the above table it can be seen that the funded debt to total capitalization ratio during the year 2015-16 was 0.989368 and for the year 2016-17 the same was 0.990053. While for the year 2017-18 the said ratio was 0.988555 for the year 2018-19 the funded debt to total capitalization ratio of the organization was 0.990026 and for the last year 2019-20 the funded debt to total capitalization ratio was 0.990610. The analysis reveals the funded dent to total capitalization ratio was highest for the year 2019-20 and the same was lowest during the year 2017-18.

Proprietary Ratio

A variant to the debt-equity ratio is the proprietary ratio which is also known as Equity Ratio or shareholder's to total equities ratio or net worth to total assets ratio. This ratio establishes the relationship between shareholder's funds to total assets of the firm. It is used to evaluate the soundness of the capital structure of a company. The ratio of proprietor's funds to total funds is an important ratio for determining long- term solvency of a firm. The ratio can be calculated as under.

Proprietary Ratio or Equity Ratio = <u>Shareholder's Equity X 100</u> Total Assets

The proprietary ratio shows the contribution of stockholders' in total capital of the company. A high proprietary ratio, therefore, indicates a strong financial position of the company and greater security for creditors. A low ratio indicates that the company is already heavily depending on debts for its operations. A large portion of debts in the total capital may reduce creditor's interest, increase interest expenses and also the risk of bankruptcy. Having a very high proprietary ratio does not always mean that the company has an ideal capital structure. A company with a very high proprietary ratio may not be taking full advantage of debt financing for its operations that is also not a good sign for the stockholders. A high ratio is a good indication of the financial health of the firm. It means that a larger portion of the total capital comes from equity. Or that a larger portion of net assets is financed by equity rather than debt.

| Year | Total Assets (Cr.) | Equity (Cr.) | Ratio |
|---------|--------------------|--------------|------------|
| 2016-17 | 552,960.78 | 31,603.20 | 0.0571527 |
| 2017-18 | 583,519.44 | 33,685.54 | 0.05772822 |
| 2018-19 | 616,886.10 | 35,604.84 | 0.05771704 |
| 2019-20 | 694,766.69 | 36,177.23 | 0.05207105 |
| 2020-21 | 723,874.75 | 39,292.96 | 0.05428143 |

Table 4.3 Proprietary Ratio



Fig 4.3 Proprietary Ratio

Interpretation:

As from the above table it can be seen that the proprietary ratio during the year 2015-16 was 0.0571527 and for the year 2016-17 the same was 0.05772822. While for the year 2017-18 the said ratio was 0.05771704 for the year 2018-19 the proprietary ratio of the organization was 0.05207105 and for the last year 2019-20 the proprietary ratio was 0.05428143. As equity ratio represents the relationship of owner's funds to total assets, higher the ratio, or the share of the shareholders in the total capital of the company, better is the long term solvency position of the company. High ratio's values and increasing trend is interpreted as an improvement of financial independence and an improvement of the security of debt coverage with existing assets. Low ratio's values and decreasing trend is interpreted as a deterioration of financial independence and a deterioration of the security of debt coverage with existing assets (lowered debt capacity).

Solvency Ratio

This ratio is a small variant of equity ratio and can be simply calculated as 100-equity ratio. Generally lower the ratio of total liabilities to total assets, more satisfactory or stable is the long- term solvency position of a firm.

Solvency Ratio = <u>Total Liabilities to Outsiders</u> Total Assets

Total Outsiders' Liability (TOL) = Total Assets - Shareholders' Funds

| Year | Total Liabilities to Outsiders (Cr.) | Total Assets (Cr.) | Ratio |
|---------|---|--------------------|------------|
| 2016-17 | 521,357.58 | 552,960.78 | 0.9428473 |
| 2017-18 | 549,833.90 | 583,519.44 | 0.94227178 |
| 2018-19 | 581,281.26 | 616,886.10 | 0.94228296 |
| 2019-20 | 658,589.46 | 694,766.69 | 0.94792895 |
| 2020-21 | 684,581.79 | 723,874.75 | 0.94571857 |

Table 4.4 Solvency Ratio



Fig 4.4 Solvency Ratio

As from the above table it can be seen that the solvency ratio during the year 2015-16 was 0.9428473 and for the year 2016-17 the same was 0.94227178. While for the year 2017-18 the said ratio was 0.94228296 for the year 2018-19 the solvency ratio of the organization was 0.94792895 and for the last year 2019-20 the solvency ratio was 0.94571857. The analysis reveals that the solvency ratio was the highest during the year 2018-19 and the same was lowest 2016-17. A solvency ratio indicates whether a company's cash flow is sufficient to meet its long-term liabilities and thus is a measure of its financial health. Acceptable solvency ratios vary from industry to industry, but as a general rule of thumb, a solvency ratio of greater than 20% is considered financially healthy. The lower a company's solvency ratio, the greater the probability that the company will default on its debt obligations.

Fixed Asset to Total Long Term Fund Ratio

Fixed assets to long term funds ratio establishes the relationship between fixed assets and long-term funds and is calculated by dividing fixed assets by long term funds. This shows the number of times the earnings of the firms are able to cover the fixed interest liability of the firm. This ratio complements the assessment of company's debt coverage capabilities. It indicates the extent to which long-term liabilities can be covered with company's tangible fixed assets. Tangible fixed assets constitute the potential source of financing of company's liabilities.

The fixed asset turnover ratio reveals how efficient a company is at generating sales from its existing fixed assets. A higher ratio implies that management is using its fixed assets more effectively. A high FAT ratio does not tell anything about a company's ability to generate solid profits or cash flows. A variant to the ratio of fixed assets to net worth is the ratio of fixed assets to total long term funds which is calculated as follows:

Fixed Assets Ratio = <u>Fixed Assets (after Depreciation)</u> Total Long Term Funds

| Year | Fixed Assets (Cr.) | Debt (Cr.) | Ratio |
|---------|--------------------|------------|-------------|
| 2016-17 | 7,198.10 | 506664.88 | 0.014206826 |
| 2017-18 | 7,168.32 | 534778.80 | 0.013404271 |
| 2018-19 | 8,318.64 | 563580.37 | 0.014760344 |
| 2019-20 | 8,410.23 | 640025.56 | 0.013140460 |
| 2020-21 | 8,276.29 | 668112.94 | 0.012387561 |

Table 4.5 Fixed Assets Ratio



Fig 4.5 Fixed Assets Ratio

As from the above table it can be seen that the fixed asset to total long term fund ratio during the year 2015-16 was 0.014206826 and for the year 2016-17 the same was 0.013404271. While for the year 2017-18 the said ratio was 0.014760344 for the year 2018-19 the fixed asset to total long term fund ratio of the organization was 0.013140460 and for the last year 2019-20 the fixed asset to total long term fund ratio was 0.012387561. It can be interpreted from the analysis that the fixed asset to total long term fund was the highest during the year 2017-18 and the same was lowest during the year 2019-20. If the ratio is high, it indicates that the company is utilizing its fixed assets efficiently. The return on capital would likely be higher in such cases, and it is taken positively by the investors and lenders. Here, the Fixed Assets ratio for the recent years is lower than the previous years, which indicates that the company is not utilizing its fixed assets efficiently.

Ratio of Current Assets to Proprietor's Fund

Current Assets to Proprietors' Fund Ratio establishes the relationship between current assets and shareholder's funds. The purpose of this ratio is to calculate the percentage of shareholder's funds invested in current assets. The ratio is calculated by dividing the total of current assets by the amount of shareholder's funds. This is calculated as follows

Current assets to proprietors fund Ratio = $\frac{\text{Current Assets X 100}}{\text{Shareholder's Fund}}$

The ratio of fixed assets to net worth indicates the extent to which shareholder's funds are sunk into the fixed assets. Generally, the purchase of fixed assets should be financed by shareholder's equity including reserves, surpluses and retained earnings.

If the ratio is less than 100%, it implies that owner's funds are more than fixed assets and a part of the working capital is provide by the shareholders. When the ratio is more than the 100%, it implies that owner's funds are not sufficient to finance the fixed assets and the firm has to depend upon outsiders to finance the fixed assets. There is no rule of thumb to interpret this ratio by 60 to 65 percent is considered to be a satisfactory ratio in case of industrial undertakings.

| Year | Current Assets (Cr.) | Shareholder's fund (Cr.) | Ratio |
|---------|----------------------|--------------------------|-------------|
| 2016-17 | 56,733.66 | 31,603.20 | 1.795187196 |
| 2017-18 | 58,825.46 | 33,685.54 | 1.746311919 |
| 2018-19 | 49,912.33 | 35,604.84 | 1.401841154 |
| 2019-20 | 66,152.69 | 36,177.23 | 1.828572558 |
| 2020-21 | 68,271.47 | 39,292.96 | 1.737498778 |

Table 4.6 Current assets to Proprietors fund Ratio



Fig 4.6 Current assets to Proprietors fund

Ratio Interpretation:

From the above table it can be seen that the ratio of current asset to proprietor's fund during the first year 2015-16 was 1.795187196 and for the year 2016-17 the same was 1.746311919. While for the year 2017-18 the said ratio was 1.401841154 for the year 2018-19 the ratio of current asset to proprietor's fund of the organization was 1.828572558 and for the last year 2019-20 the ratio of current asset to proprietor's fund was 1.737498778. Here, the ratio is more than the 100%, it implies that owner's funds are not sufficient to finance the fixed assets and the firm has to depend upon outsiders to finance the fixed assets.

Profitability Ratios

Profitability means the ability of a company to earn a profit. Firm's profitability is very important both for stockholders and creditors because revenue in the form of dividends is being derived from profits, as well as profits are one source of funds for covering debts. Profitability ratio analysis is a good way to measure the company's performance. Profitability ratios can be divided into two types: margins, indicating the firm's ability to transform money from sales into profits, and returns, showing the ability of a company to generate returns for its shareholders.

Profitability ratio is used to evaluate the company's ability to generate income as compared to its expenses and other cost associated with the generation of income during a particular period. This ratio represents the final result of the company. Profitability represents final performance of company i.e. how profitable company. It also represents how profitable owner's funds have been utilized in the company. Profitability ratios are a class of financial metrics that are used to assess a business's ability to generate earnings relative to its revenue, operating costs, balance sheet assets, or shareholders' equity over time, using data from a specific point in time.

Profitability ratios are metrics that assess a company's ability to generate income relative to its revenue, operating costs, balance sheet assets, or shareholders' equity. Profitability ratios show how efficiently a company generates profit and value for shareholders. Higher ratio results are often more favorable, but ratios provide much more information when compared to results of similar companies, the company's own historical performance, or the industry average.

Return on Capital Employed

This ratio computes percentage return in the company on the funds invested in the business by its owners. A high ratio represents better the company is. Formula: Net Operating Profit \div Capital Employed $\times 100$

Capital Employed = Equity share capital, Reserve and Surplus, Debentures and long-term Loans Capital Employed = Total Assets – Current Liability

| Year | ROCE (%) |
|---------|----------|
| 2016-17 | 1.32 |
| 2017-18 | 1.56 |

| 2018-19 | 1.59 |
|---------|------|
| 2019-20 | 1.56 |
| 2020-21 | 1.32 |

Table 4.7 Return on Capital Employed



Fig 4.7 Return on Capital Employed

As from the above table it can be seen that the ROCE during the year and for the year 2015-16 was 1.32. While for the year 2016-17 the said ratio was 1.56 and for the year 2017- 18 the ROCE of the organization was 1.59 and for the year 2018-19 the ratio was 1.56. During the year 2019-20 the same was 1.32. ROCE increased from 2015-16 to 2017-18, but shows a decreasing trend afterwards.

Return on Assets

Profitability is assessed relative to costs and expenses and analyzed in comparison to assets to see how effective a company is deploying assets to generate sales and profits. The use of the term "return" in the ROA ratio customarily refers to net profit or net income—the value of earnings from sales after all costs, expenses, and taxes. ROA is net income divided by total assets.

The more assets a company has amassed, the more sales and potential profits the company may generate. As economies of scale help lower costs and improve margins, returns may grow at a faster rate than assets, ultimately increasing ROA. This ratio measures the earning per rupee of assets invested in the company. A high ratio represents better the company is.

Formula: Net Profit ÷ Total Assets

| Year | Return on Assets (%) |
|---------|----------------------|
| 2016-17 | -0.5 |
| 2017-18 | 0.19 |
| 2018-19 | -0.68 |
| 2019-20 | 0.04 |
| 2020-21 | -0.3 |

Table 4.8 Return on Assets





As from the above table it can be seen that the Return on Assets during the year and for the year 2015-16 was -0.5. While for the year 2016-17 the said ratio was 0.19 and for the year 2017- 18 the Return on Assets of the organization was -0.68 and for the year 2018-19 the ratio was 0.04. During the year 2019-20 the same was -0.3. Return on Assets shows a fluctuating trend throughout these years.

Return on Equity

ROE is a key ratio for shareholders, as it measures a company's ability to earn a return on its equity investments. ROE is net income divided by shareholders' equity. ROE may increase without additional equity investments, as the ratio can rise due to higher net income due to a larger asset base funded with debt.

This ratio measures Profitability of equity fund invested the company. It also measures how profitably owner's funds have been utilized to generate company's revenues. A high ratio represents better the company is.

Formula: Profit after Tax \div Net worth Where,

Net worth = Equity share capital, and Reserve and Surplus

| Year | Return on Equity (%) |
|---------|----------------------|
| 2016-17 | -10.75 |
| 2017-18 | 3.96 |
| 2018-19 | -14.51 |
| 2019-20 | 1.16 |
| 2020-21 | -6.78 |







Interpretation:

As from the above table it can be seen that the Return on Equity during the year and for the year 2015- 16 was -10.75. While for the year 2016-17 the said ratio was 3.96 and for the year 2017- 18 the Return on Equity of the organization was -14.51 and for the year 2018-19 the ratio was 1.16. During the year 2019-20 the same was -6.78. Return on Equity shows a fluctuating trend throughout these years.

Net Interest Margin

Net interest margin (NIM) is a measure of the difference between the interest income earned by a bank or other financial institution and the interest it pays out to its lenders (for example, depositors), relative to the amount of their assets that earn interest.

Net interest margin = <u>Investment Returns</u> - <u>Interest Paid</u> Average Assets

Investment Return = Interest received or return on investment

Interest Paid = Interest paid on the debt

Average Assets = (Assets at the start of the year + Assets at the end of the year) / 2

Net Interest Margin tells about how profitable or good the firm is at making its decisions for its investments than just keeping up with its debtors, it is a really important metric for checking the financial stability and operational acumen.

| Year | Net Interest Margin (%) |
|---------|-------------------------|
| 2016-17 | 1.73 |
| 2017-18 | 1.66 |
| 2018-19 | 1.93 |
| 2019-20 | 2.19 |
| 2020-21 | 1.88 |

Table 4.10 Net Interest Margin



Fig 4.10 Net Interest Margin

As from the above table it can be seen that the Net Interest Margin during the year and for the year 2015-16 was 1.73. While for the year 2016-17 the said ratio was 1.66 and for the year 2017- 18 the Net Interest Margin of the organization was 1.93 and for the year 2018-19 the ratio was 2.19. During the year 2019-20 the same was 1.88. Net Interest Margin shows an increasing trend from 2016-17 to 2018-19 year, but decreases on 2019-20.

Operating Profit Margin

Operating profit is calculated by subtracting all COGS, depreciation and amortization, and all relevant operating expenses from total revenues. Operating expenses include a company's expenses beyond direct production costs – such things as salaries and benefits, rent and related overhead expenses, research and development costs, etc. The operating profit margin calculation is the percentage of operating profit derived from total revenue. Operating Profit Margin differs across industries and is often used as a metric for benchmarking one company against similar companies within the same industry. It can reveal the top performers within an industry and indicate the need for further research regarding why a particular company is outperforming or falling behind its peers.

Total Revenue

| Year | Operating Profit Margin (%) |
|---------|-----------------------------|
| 2016-17 | -17.46 |
| 2017-18 | -15.54 |
| 2018-19 | -27.06 |
| 2019-20 | -13.3 |
| 2020-21 | -20.53 |

Table 4.11 Operating Profit Margin



Fig 4.11 Operating Profit Margin

Interpretation:

As from the above table it can be seen that the Operating Profit Margin during the year and for the year 2015-16 was 1.73. While for the year 2016-17 the said ratio was 1.66 and for the year 2017- 18 the Operating Profit Margin of the organization was 1.93 and for the year 2018-19 the Operating Profit Margin ratio was 2.19. During the year 2019-20 the same was 1.88. Operating Profit Margin for the last year is lesser than the first year, which means the company is outperforming among the peers.

Net Profit Margin

The net profit margin is equal to how much net income or profit is generated as a percentage of revenue.

Net profit margin is the ratio of net profits to revenues for a company or business segment. Net profit margin is typically expressed as a percentage but can also be represented in decimal form. The net profit margin illustrates how much of each dollar in revenue collected by a company translates into profit. Net income is also called the bottom line for a company or the net profit. Net profit margin is also called net margin. The term net profit is equivalent to net income on the income statement, and one can use the terms interchangeably. Net profit margin (or profit margin, net margin, return on revenue) is a ratio of profitability calculated as after-tax net income (net profits) divided by sales (revenue). Net profit margin is displayed as a percentage. Net profit margin is a key ratio of profitability. It is very useful when comparing companies in similar industries. A higher net profit margin means that a company is more efficient at converting sales into actual profit. Net Profit Margin Ratio = Profit (After Tax) / Revenue

| Year | Net Profit Margin |
|---------|-------------------|
| 2016-17 | -6.38 |
| 2017-18 | 2.71 |
| 2018-19 | -10.23 |
| 2019-20 | 0.74 |
| 2020-21 | -4.56 |

Table 4.12 Net Profit Margin





As from the above table it can be seen that the net profit margin during the year and for the year 2015- 16 was -6.38. While for the year 2016-17 the said ratio was 2.71 and for the year 2017- 18 the net profit ratio of the organization was -10.23 and for the year 2018-19 the net profit margin was 0.74. During the year 2019-20 the same was -4.56. The Net Profit margin helps in determining the efficiency with which affairs of the business being managed. A decrease in the ratio from the previous year indicates poor improvement in the operational efficiency of the business, provided the Gross Profit Ratio is constant. There is a downward trend in the net profit ratio which shows the Canara bank is earning less profits in the year 2019-20 when compared to the previous year. **CASA Ratio**

CASA ratio stands for current and savings account ratio. It is the proportion of current account and savings account deposits in the total deposits of the bank. CASA ratio of a bank is the ratio of deposits in current and saving accounts to total deposits.

A higher CASA ratio indicates a lower cost of funds, because banks do not usually give any interests on current account deposits and the interest on saving accounts is usually very low 3-4%. If a large part of a bank's deposits comes from these funds, it means that the bank is getting those funds at a relative lower cost.

It is generally understood that a higher CASA ratio leads to higher net interest margin. A higher ratio means a larger portion of a bank's deposits are in current and savings accounts, rather than term deposit

accounts. This is beneficial to a bank because it gets money at a lower cost. In India, it is used as one of the metrics to assess the profitability of a bank. A low CASA ratio means the bank relies heavily on costlier wholesale funding, which can hurt its margins

| Year | CASA ratio |
|---------|------------|
| 2016-17 | 25.74 |
| 2017-18 | 30.23 |
| 2018-19 | 31.82 |
| 2019-20 | 29.18 |
| 2020-21 | 31.37 |



Fig 4.13 CASA

Interpretation:

As from the above table it can be seen that the CASA ratio during the year and for the year 2015-16 was 25.74. While for the year 2016-17 the said ratio was 30.23 and for the year 2017- 18 the net profit

ratio of the organization was 31.82 and for the year 2018-19 the net profit margin was 29.18. During the year 2019-20 the same was 31.37. A higher ratio means a larger portion of a bank's deposits are in current and savings accounts, rather than term deposit accounts. This is beneficial to a bank because it gets money at a lower cost.

Trend Analysis

This analysis is an important tool of horizontal financial analysis. This method is immensely helpful in making a comparative study of financial statement of several years. Under this method trend percentage is calculated for each items of the financial statement taking the figures of the base year as 100. The starting year is usually taken as the base year. The trend percentage shows the relationship of each item with its preceding year's percentage.

Trend of Short Term Assets and Liabilities

A trend percentage analysis is an enhanced horizontal analysis technique. Trend percentage analyses help companies identify consistent revenues or expenses from past accounting periods. These trends can help managers make business decisions regarding future operations. Companies will use a specific financial statement as a base year for comparing all future financial statements. Changes for each future time period are expressed as a percentage when compared to the base financial statement. Companies can conduct a trend percentage analysis at various times of the year or use different financial statements as the base during this comparison process.

Short term assets refer to assets that are held for a year or less, and accountants use the term —current to refer to an asset expected to be converted into cash in the next year or liability coming due in the next year. The accounting profession uses current assets and current liabilities to perform analysis, and in the investing industry, a security with a holding period of one year or less is considered a short-term security.

Trend Analysis of Current Assets

| Year | Current Assets (Cr.) | Trend Indices |
|---------|----------------------|---------------|
| 2016-17 | 56,733.66 | 100 |
| 2017-18 | 58,825.46 | 103.6870528 |
| 2018-19 | 49,912.33 | 87.97657334 |
| 2019-20 | 66,152.69 | 116.60219 |
| 2020-21 | 68,271.47 | 120.3367983 |

Table 4.14 Trend Analysis of Current assets



Fig 4.14 Trend Analysis of Current assets

As from the above it can be seen that the trend indices of current asset shows an increase every year except for the year 2017-18 compared to the base year 2015-16. During the year 2017-18 the trend indices of current asset had been decreased to 87.97657334 and during the subsequent year 2018-19 the same had been increased by 16.60219. While during the year 2019-20 the increase was by 120.3367983, during the year 2016-17 the same was by 3.6870528. The analysis reveals that the current asset is increasing year by year. Trend Analysis of Cash
| Year | Cash (Cr.) | Trend Indices |
|---------|------------|---------------|
| 2016-17 | 20,664.05 | 100 |
| 2017-18 | 19,922.50 | 91.55481534 |
| 2018-19 | 22,100.04 | 106.9492186 |
| 2019-20 | 29,919.02 | 144.7877836 |
| 2020-21 | 22,570.14 | 109.224184 |

Table 4.15 Trend Analysis of Cash



Fig 4.15 Trend Analysis of Cash

As from the above it can be seen that the trend indices of cash shows an increasing trend except for the year 2016-17 compared to the base year 2015-16. During the year 2017-18 the trend indices of cash had been increased to 106.9492186 and during the subsequent year 2018-19 the same had been increased to 144.7877836. While during the year 2019-20 the cash shows a slight decrease from the previous year, but the same had been increased to 109.224184 compared to the base year.

4.2.1.2 Trend Analysis of Current liabilities

| Year | Current liabilities (Cr.) | Trend Indices |
|---------|---------------------------|---------------|
| 2016-17 | 14692.7 | 100 |
| 2017-18 | 15055.1 | 102.466531 |
| 2018-19 | 17700.9 | 120.474113 |
| 2019-20 | 18563.89 | 126.3477101 |
| 2020-21 | 16468.84 | 112.0885882 |

Table 4.16 Trend Analysis of for Current liabilities



Fig 4.16 Trend Analysis of Current liabilities

From the above it can be seen that the trend indices of current liabilities shows an increasing trend every year under study compared to the base year 2015-16. During the year 2016-17 the trend indices of current liabilities had been increased to 102.466531 and during the next year 2017-18 the same had been increased to 120.474113. While during the year 2018-19 the current liabilities shows an increase up to 126.3477101, during the last year 2019-20 the same had been increased to 112.0885882. The analysis reveals that the current liability of the organization is increasing year by year.

4.2.1.4 Trend Analysis of Working Capital

| Year | Working Capital (Cr.) | Trend Indices |
|---------|-----------------------|---------------|
| 2016-17 | 42,040.96 | 100 |
| 2017-18 | 43,770.36 | 104.1136 |
| 2018-19 | 32,211.43 | 76.61916 |
| 2019-20 | 47,588.80 | 113.1963 |
| 2020-21 | 51,802.63 | 123.2194 |

T



Fig 4.17 Trend Analysis of Working Capital

From the above it can be seen that the trend indices of working capital shows an increasing trend except for the year 2017-18 compared to the base year 2015-16. During the year 2016-17 the trend indices of working capital had been increased to 104.1136 and during the subsequent year 2017-18 the same had been decreased to 76.61916. While during the year 2018-19 the working capital shows an increase up to 113.1963, during the last year 2019-20 the working capital increased to 123.2194.

Trend of Long Term Assets and Liabilities

Trend analysis evaluates an organization's financial information over a period of time. Periods may be measured in months, quarters, or years, depending on the circumstances. The goal is to calculate and analyze the amount change and percent change from one period to the next. Long-term assets are investments in a company that will benefit the company for many years. Long-term assets can include fixed assets such as a company's property, plant, and equipment, but can also include intangible assets, which can't be physically touched such as long-term investments or a company's trademark. Changes in long-term assets can be a sign of capital investment or liquidation.

Trend Analysis of Total Assets



| Year | Total Assets (Cr.) | Trend Indices |
|---------|--------------------|---------------|
| 2016-17 | 552,960.78 | 100 |
| 2017-18 | 583,519.44 | 105.5264 |
| 2018-19 | 616,886.10 | 111.5606 |
| 2019-20 | 694,766.69 | 125.6448 |
| 2020-21 | 723,874.75 | 130.9089 |

Table 4.18 Trend Analysis of Total assets



Interpretation:

It can be seen that the trend indices of total assets shows an increasing trend every year compared to the base year 2015-16. During the year 2016-17 the trend indices of total asset had been increased to 105.5264 and during the subsequent year 2017-18 the same had been increased to 111.5606. While during the year 2018-19 the increase was up to 125.6448, during the last year 2019-20 the same was increased to 130.9089. It can be analyzed from the above that the rate of increase was the highest during the year 2019-20.

Trend Analysis of Deposits



| Year | Deposits (Cr.) | Trend Indices |
|---------|----------------|---------------|
| 2016-17 | 479,791.56 | 100 |
| 2017-18 | 495,275.24 | 103.2271681 |
| 2018-19 | 524,771.86 | 109.3749669 |
| 2019-20 | 599,033.27 | 124.8528153 |
| 2020-21 | 625,351.17 | 130.3380931 |

Table 4.19 Trend Analysis of Deposits



Fig 4.19 Trend Analysis of Deposits

It can be seen that the trend indices of deposits shows an increasing trend every year compared to the base year 2015-16. During the year 2016-17 the trend indices of deposits had been increased to 103.2271681 during the subsequent year 2017-18 the same had been increased to 109.3749669. While during the year 2018-19 the increase was 124.8528153, during the last year 2019-20 the same was increased to 130.3380931.

Trend Analysis of Total Debt

| Year | Debt (Cr.) | Trend Indices |
|---------|------------|---------------|
| 2016-17 | 506665 | 100 |
| 2017-18 | 534779 | 105.5488154 |
| 2018-19 | 563580 | 111.2333615 |
| 2019-20 | 640026 | 126.3212826 |
| 2020-21 | 668113 | 131.8648479 |

Table 4.20 Trend Analysis of Debt



Fig 4.20 Trend Analysis of Debt

It can be seen that the trend indices of total debt shows an increasing trend every year compared to the base year 2015-16. During the year 2016-17 the trend indices of total debt had been increased to 105.5488154 and during the subsequent year 2017-18 the same had been increased to 111.2333615. While during the year 2018-19 the increase was by 126.3212826, during the last year 2019-20 the same was increased to 131.8648479.

Trend Analysis of Equity

| Year | Equity (Cr.) | Trend Indices |
|---------|--------------|---------------|
| 2016-17 | 31,603.20 | 100 |
| 2017-18 | 33,685.54 | 106.5890163 |
| 2018-19 | 35,604.84 | 112.6621355 |
| 2019-20 | 36,177.23 | 114.4733128 |
| 2020-21 | 39,292.96 | 124.3322195 |

Table 4.21 Trend Analysis of Equity



Fig 4.21 Trend Analysis of Equity

It can be seen that the trend indices of equity shows an increasing trend every year compared to the base year 2015-16. During the year 2016-17 the trend indices of equity had been increased to 106.5890163 and during the subsequent year 2017-18 the same had been increased to 112.6621355. While during the year 2018-19 the same had been increased to 114.4733128, during the last year 2019-20 the same was increased to 124.3322195.

Trend Ratio Analysis

The capital structure is the particular combination of debt and equity used by a company to finance its overall operations and growth. Debt comes in the form of bond issues or loans, while equity may come in the form of common stock, preferred stock, or retained earnings. Short-term debt is also considered to be part of the capital structure. Capital structure is how a company funds its overall operations and growth. Debt consists of borrowed money that is due back to the lender, commonly with interest expense. Equity consists of ownership rights in the company, without the need to pay back any investment. The Debt-to-Equity (D/E) ratio is useful in determining the riskiness of a company's borrowing practices.

Trend Analysis of Debt Equity Ratio

| Year | Debt Equity Ratio | Trend Indices |
|---------|-------------------|---------------|
| 2016-17 | 16.03208 | 100 |
| 2017-18 | 15.87562 | 99.02410513 |
| 2018-19 | 15.82876 | 98.7318051 |
| 2019-20 | 17.69139 | 110.3499816 |
| 2020-21 | 17.00338 | 106.0584791 |

Table 4.22 Trend Analysis of Debt Equity Ratio



Fig 4.22 Trend Analysis of Debt Equity Ratio

The above table as well as the chart shows a fluctuating 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.

Trend Analysis of Solvency Ratio

| Year | Solvency Ratio | Trend Indices |
|---------|----------------|---------------|
| 2016-17 | 0.9428473 | 100 |
| 2017-18 | 0.94227178 | 99.93895936 |
| 2018-19 | 0.94228296 | 99.94014513 |
| 2019-20 | 0.94792895 | 100.5389685 |



Fig 4.23 Trend Analysis of Solvency Ratio

The above table as well as the chart shows a fluctuating trend of 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 Analysis of Fixed Assets Ratio

| Year | Fixed Assets Ratio | Trend Indices |
|---------|--------------------|---------------|
| 2016-17 | 0.014206826 | 100 |
| 2017-18 | 0.013404271 | 94.35091976 |
| 2018-19 | 0.014760344 | 103.8961412 |
| 2019-20 | 0.013140460 | 92.49398845 |



Fig 4.24 Trend Analysis of Fixed Assets Ratio

The above table as well as the chart shows a fluctuating trend of 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.

CHAPTER 6 FINDINGS OF THE STUDY

Findings

The following are the findings of the analysis done on calculation of various ratios and percentages in order to study the financial health of the company over a period of five years.

• It has been noted that the Debt Equity Ratio of the organization was highest for the year 2018-19 and lowest for the year 2017-18. The company has been increasing the debt level in its capital structure year after year and this means that the claims of the outsiders are greater than that of the owners.

- The analysis reveals the Debt to Capital Ratio was highest for the year 2019-20 and the same was lowest during the year 2017-18. Increasing debt to capital ratio on recent years shows weak financial strength.
- The analysis reveals the Proprietary Ratio was highest for the year 2016-17 and the same was lowest during the year 2018-19. The proprietary ratio was decreasing in recent years, which indicates a weak financial position of the bank. The high ratio on 2016-17 indicates a good financial health of the bank during that period.
- The analysis reveals that the Solvency Ratio was the highest during the year 2018-19 and the same was lowest 2016-17. The firm fails to maintain a satisfactory level of solvency ratios throughout the period of study, which is an indication of poor financial health.
- The analysis reveals that the Fixed Assets Ratio was the highest during the year 2017-18 and the same was lowest 2019-20, which means that the firm is not utilizing its fixed assets efficiently.
- The analysis reveals that the bank follows a fluctuating trend on analysis of profitability ratios. The decreasing trend on recent years indicates poor improvement in the operational efficiency of the bank. The profitability ratios are lower on recent years, which means the profitability and financial performance of the bank is not satisfactory on those years.

81

CHAPTER 7 CONCLUSION

Conclusion

The study reveals that the proportion of debt/funds in the capitalization is not satisfactory because the net profits are lower in recent years compared to previous years. 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.

BIBILIOGRAPHY

- Uppal Jamshed Yunas (1990). —An Empirical Investigation of Debt and Taxes in a Multi- period Framework , *Dissertation Abstracts International*, 51(2): 593-594.
- [2] Kuralekar, S.V. (1990). —A Study of Capital Structure Planning in PESI, An Unpublished Ph.D Thesis Submitted to Osmania University, Hyderabad.
- [3] Kester, W.C. and R.W. Kolb (1991). —Capitalisation and Ownership Structure: a Comparision of United States and Japanese Manufacturing Firms^{II}, Harward Business school.
- [4] Nazeer Mazhar (1991). —Factors Related to Corporate Capital Structurel, *Dissertation Abstracts* International, 52(4): 1461-A
- [5] Jain, P.K. Trade, S.M. Jain, S.K. (1995). —Capital Structure Practices of Private Corporate Sector in Indial, *The Management Accountant*, 500-03.
- [6] Rajan R.G. and Zingles I. (1996). —What Do We Know About Capital Structure? Some Evidence from International Data", *Journal of Finance*, 50: 1421-1460.
- [7] Wald, J.K. (1999). —How Firm Characteristics Affect Capital Structure: An International Comparison^{II}, *Journal of Financial Research*, 22: 161-187.
- [8] Kakani, R.K. (1999). —The Determinants of Capital Structure: An Econometric Analysisl, *Finance India*, 13: 51-69.

[9] Veni and Narayana, (2002). —Leverage, Capital Structure, Dividend Policy and Practicesl,

The Mnagement Accountant, 47: 941-946.

- [10] Voulgaris, F. Asteriou and Agiomirgianakis G. (2002). —Capital structure, Asset Utilization,
 Profitability and Growth in the Greek Manufacturing Sector, Applied Economics, 34: 1379-1388.
- [11] Samuel Gui Hai Huang and Frank Song M. (2002). —The Determinants of Capital Structurel, HIEBS (Hong Kong Institute of Economics and Business Strategy), *Working Paper*.
- [12] Alan, A. Bevan and Jo Danbolt (2002). —On the Determinants and Dynamics of Capital Structure in the UKI, *University of Glasgow Working paper*.
- [13] Gavin Cassar and Scott Holmes (2003). —Capital structure and financing of SMEs- Australian evidencel, *Journal of Accounting and Finance*, 43:123-147.

