A STUDY ON FUNCTIONAL ANALYSIS OF KARNATAKA BANK WITH REFERENCE TO FINANCIAL PARAMETERS

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Introduction

Banking in India in the modern sense originated in the last decades of the 18th century. Banking in India was generally fairly mature in terms of supply, product range and reach-even though reach in rural India and to the poor still remains a challenge. The government has developed initiatives to address this through the State bank of India expanding its branch network and through the National Bank for Agriculture and Rural Development with things like microfinance. The assessment of profitability performance of such a big bank has its own importance having implication towards its own financial health as well as economic condition of the economy. Besides, if the profitability performance shows increasing trend, it signals that the concern is moving towards the development stage along with right strategy Pacific Business Review International welcoming future benefits and opportunities.

Overview of Karnataka Bank Limited

Karnataka Bank Limited, a leading 'A' Class Scheduled Commercial Bank in India, was incorporated on February 18th, 1924 at Mangaluru, a coastal town of Dakshina Kannada district in Karnataka State. The bank took shape in the aftermath of patriotic zeal that engulfed the nation during the freedom movement of 20th Century India. Over the years the Bank grew with the merger of Sringeri Sharada Bank Ltd., Chitradurga Bank Ltd. and Bank of Karnataka.

With over 9 decades of experience at the forefront of providing professional banking services and quality customer service, we now have a national presence with a network of 718 branches spread across 21 states and 2 Union Territories. Managed by a dedicated & professional management team, we have over 7,669 employees, 1,22,000 shareholders and over 9.2 million customers.

Statement of the Problem

Banking is a vast subject many economic researchers have studying and focusing their attention on various spheres of banking. The studies available on the performance of commercial banks are minimum in number. There are, still many unexplored areas that are needed to be explored. In their context "Functional analysis of Karnataka bank " is selected for the present study.

Review of Literature

Jha and Sarangi (2011) analyzed the performance of seven public sector and private sector banks for the year 2009-10. They used three sets of ratios, operating performance ratios, financial ratios, and efficiency ratios. In all eleven ratios were used. They found that Axis Bank took the first position, followed ICICI Bank, BOI, PNB, SBI, IDBI, and HDFC, in that order. Pat (2009) made an assessment of the RBI's Report on "Trend and Progress of Banking' in India, 2007-08, which reported a relatively-healthy position of the Indian banking system. He noted that the various groups of banks reported improvements in net profits, return on assets and return on equity. Two basic indicators of sound banking system, namely, capital to risk weighted assets and quality of assets, also revealed considerable improvements over the years. Makesh (2008) evaluated the financial management practices of Federal Bank and Dhanlakshmi Bank, along with the SBI, for the financial year 2006-2007. He revealed that all the three banks maintained capital in excess of the stipulated norms of the RBI. Federal Bank had the lowest NPA Ratio to net advances and had the maximum return on equity. Dhanalakshmi Bank maintained a very high liquidity. But Federal Bank performed well in cost management, as compared to the SBI and Dhanalakshmi Bank.

Objectives of the Study

1. To make comparative financial performance of Karnataka Bank Ltd in different time period.
2. To ascertain the financial performance in terms of solvency ratios.
3. To offer suitable suggestions to improve the performance of Karnataka Bank Ltd.

Period of the Study

The required data for this study covers for the period from 2010-11 to 2014-15 of five years.

Methodology

The present study aims to analyze the comparative performance of Karnataka Bank Ltd. Karnataka Bank Ltd. is a public sector banks with huge capital background. In order to know the Performance of Karnataka Bank Ltd., the study has been carried out. Therefore, Karnataka Bank Ltd. has been purposively chosen for this present study.

Collection of Data

The secondary data has been collected through websites of Karnataka Bank Ltd. The other secondary information was collected from various journals, books, newspapers and websites related to study.

Analysis of Data

The data so collected have been analyzed by using various techniques such as comparative balance sheet technique, trend analysis and Ratio analysis.

Limitation of the Study

1. This Study is done on in the aspects of Karnataka Bank Ltd. only.
2. Time period of the study is short. Due to the time constraints the detailed view of the study cannot be made.
3. The data used for the analyses is only secondary data.
4. The data has been collected for only last 5 year from 2010-11 to 2014-15.

Comparative Balance Sheet Analysis of Karnataka Bank Ltd

A comparative balance sheet presents side-by-side information about an entity's assets, liabilities, and shareholders' equity as of multiple points in time. For example, a comparative balance sheet could present the balance sheet as of the end of each year for the past three years. Another variation is to present the balance sheet as of the end of each month for the past 12 months on a rolling basis. In both cases, the intent is to provide the reader with a series of snapshots of a company's financial condition over time, which is useful for developing trend line analyses.

Table - 1 comparative balance sheets of karnataka bank ltd. As on 31st March 2011 and 2012

Liabilities	2011	2012	Absolute change	percentage change
Total Share Capital	188.2	188.29	0.09	0.05
Equity Share Capital	188.2	188.29	0.09	0.05
Reserves	2,240.89	2,409.92	169.03	7.54
Deposits	27,336.45	31,608.32	4271.87	15.63
Borrowings	1,086.33	1,147.07	60.74	5.59
Other Liabilities & Provisions	841.14	967.96	126.82	15.08
Total Liabilities	**31,693.01**	**36,321.56**	4628.55	14.60
Assets	**2011**	**2012**	**Absolute change**	**percentage change**
Cash & Balances with RBI	1,939.81	1,704.75	-235.06	-12.12
Balance with Banks, Money at Call	46.25	160.82	114.57	247.72
Advances	**17,348.07**	**20,720.70**	3372.63	19.44
Investments	**11,506.34**	**12,841.23**	1334.89	11.60
Gross Block	145.53	152.23	6.7	4.60
Other Assets	707.01	741.85	34.84	4.93
Total Assets	**31,693.01**	**36,321.58**	4628.57	14.60

It is observed from the above table that deposits have increased 15.63 per cent during the year 2012 than 2011. Cash and Balances with RBI has decreased 12.12 per cent and the balances with Bank, money at call has increased 247.72 per cent. As the advances have increased 19.44 per cent and the investments by 11.60 per cent, it is presumed that the withdrawal from RBI and the borrowings could be used for this purpose. Overall, the performance of the bank has increased during the year 2012.

Table - 2 Comparative Balance sheets of Karnataka Bank ltd.
As on 31st March 2012 and 2013

LIABILITIES	2012	2013	Absolute change	percentage change
Total Share Capital	188.29	188.35	0.06	0.03
Equity Share Capital	188.29	188.35	0.06	0.03
Reserves	2,409.92	2,668.73	258.81	10.74
Deposits	31,608.32	36,056.22	4447.9	14.07
Borrowings	1,147.07	1,579.76	432.69	37.72
Other Liabilities & Provisions	967.96	1,033.32	65.36	6.75
Total Liabilities	**36,321.56**	**41,526.38**	5204.82	14.33
Assets	2012	2013	Absolute change	percentage change
Cash & Balances with RBI	1,704.75	1,717.96	13.21	0.77
Balance with Banks, Money at Call	160.82	235.84	75.02	46.65
Advances	20,720.70	25,207.68	4486.98	21.65
Investments	12,841.23	13,432.48	591.25	4.60
Gross Block	152.23	166.96	14.73	9.68
Other Assets	741.85	765.46	23.61	3.18
Total Assets	**36,321.58**	**41,526.38**	5204.8	14.33

The above table exemplifies that the bank's reserve maintenance with RBI have been increased compared to 2012. Bank has deposited its cash and balances with RBI.

This clears that sequentially to maintain its liquidity; bank has borrowed funds and raised other liabilities. In the case of fixed asset there has a huge changes been made 9.68 per cent than previous year.

The advances have increased 21.65 per cent when compared to 2012. The investments made by the bank have also in the sequence of increasing trend than the previous year. Overall, the performance of the bank is quite good during the year 2013 than 2012.

Table – 3 Comparative Balance Sheets of Karnataka bank ltd. As on 31st March 2013 and 2014

Liabilities	2013	2014	Absolute change	% change
Total Share Capital	188.35	188.42	0.07	0.04
Equity Share Capital	188.35	188.42	0.07	0.04
Reserves	2,668.73	2,863.78	195.05	7.31
Deposits	36,056.22	40,582.83	4526.61	12.55
Borrowings	1,579.76	1,915.19	335.43	21.23

Other Liabilities & Provisions	1,033.32	1,478.58	445.26	43.09
Total Liabilities	**41,526.38**	**47,028.80**	5502.42	13.25
Assets	**2013**	**2014**	**Absolute change**	**% change**
Cash & Balances with RBI	1,717.96	2,152.73	434.77	25.31
Balance with Banks, Money at Call	235.84	184.67	-51.17	-21.70
Advances	**25,207.68**	**28,345.49**	3137.81	12.45
Investments	**13,432.48**	**15,226.78**	1794.3	13.36
Gross Block	166.96	197.48	30.52	18.28
Other Assets	765.46	921.65	156.19	20.40
Total Assets	**41,526.38**	**47,028.80**	5502.42	13.25

The above table itemizes that Borrowings of bank has increased 21.23 per cent during the year 2014 when compared to 2013. It explains that banks financial position has been decreased. Deposits of the bank have increased 12.55 per cent and advances have increased 12.45 per cent. Therefore, the costs of holding deposits are met by the way of interest incomes of loans and advances. The bank's deposit with RBI has increased 25.31 per cent during the year 2014 when compared to 2013. So, the bank has withdrawn fund from banks and money at call and short notice.

Table - 4 Comparative Balance Sheets of Karnataka Bank ltd as on 31st March 2014 and 2015

Liabilities	2014	2015	Absolute change	% change
Total Share Capital	188.42	188.46	0.04	0.02
Equity Share Capital	188.42	188.46	0.04	0.02
Reserves	2,863.78	3,200.60	336.82	11.76
Deposits	40,582.83	46,008.61	5425.78	13.37
Borrowings	1,915.19	1,037.76	-877.43	-45.81
Other Liabilities & Provisions	1,478.58	1,401.18	-77.4	-5.23
Total Liabilities	**47,028.80**	**51,836.61**	4807.81	10.22
Assets	**2014**	**2015**	**Absolute change**	**% change**
Cash & Balances with RBI	2,152.73	2,488.45	335.72	15.60
Balance with Banks, Money at Call	184.67	125.71	-58.96	-31.93
Advances	**28,345.49**	**31,679.99**	3334.5	11.76
Investments	**15,226.78**	**15,988.06**	761.28	5.00
Gross Block	197.48	291.85	94.37	47.79
Other Assets	921.65	1,262.54	340.89	36.99
Total Assets	**47,028.80**	**51,836.60**	4807.8	10.22

The above table indicates that the bank has increased its deposits with RBI by 15.60 per cent in order to maintain its average weekly and monthly balance as per RBI rules. For the purpose of maintaining its balance with RBI, balance with banks and money at call were withdrawn during the year when compared to previous year. Withdrawal from banks and deposits has been used for making investments in fixed assets (gross block) and other assets.

The bank has concentrated on diminishing of the borrowing's it has been decreased 45.81 per cent than 2014. It shows that the bank has improving the financial position than compared to the previous year.

Ratio analysis

Table - 5 Liquidity Ratios

Ratios	2015	2014	2013	2012	2011
Loans / Deposits(x)	0.02	0.05	0.04	0.04	0.04
Total Debt / Equity(x)	0.05	0.05	0.05	0.05	0.07
Current Ratio(x)	0.35	0.38	0.37	0.41	0.42

The above table shows that Loan to deposit ratio has been same upto 2013, thereafter there is an ups and downs. In the case of Debt-Equity ratio, it has been remained unchanged from the year 2012 to 2015. The current ratio has been also been same. The current ratio indicates that the proportion is far below than the standard of 2:1. Hence, it is concluded that the overall performance of the bank is not satisfactory during the study period.

Table - 6 Performance Ratios

Ratios	2015	2014	2013	2012	2011
ROA(%)	0.91	0.7	0.89	0.72	0.7
ROE(%)	14.03	10.54	12.78	9.81	9.63
ROCE(%)	14.49	12.03	14.63	10.71	10.22

The above table indicates that Return of Asset Ratio has been in the increasing trend. Return on Equity and Return on Capital Employed have also been in the increasing trend. As the bank wants to satisfy the needs of investors, it has been maintaining its profitability.

Table - 7 Efficiency Ratio

Efficiency Ratios	2015	2014	2013	2012	2011
Cost Income Ratio	52.4	56.01	51.18	52.69	60.71
Operating Costs to Assets	1.77	1.86	1.6	1.56	1.73

The above table examines that the cost to Income ratio is above 50 per cent throughout the study period. The operating cost to assets is above 1.5 throughout the study period. It shows that the cost is higher than income and asset.

Table - 8 Profitability Ratios

Profitability Ratios	2015	2014	2013	2012	2011
Sales Turnover	46,984.20	41,888.30	37,642.90	31,128.80	23,708.40
Operating profit	7,232.70	6,870.50	6,353.30	5,102.10	3,552.90
Net Profit	4,514.50	3,110.30	3,480.80	2,460.70	2,046.10
Operating profit ratio	15.39	16.40	16.88	16.39	14.99
Net profit ratio	9.61	7.43	9.25	7.90	8.63

The above table clears that operating profit ratio is in a satisfactory level. The net profit ratio has also been in an increasing trend.

It is also understood from the table that the sales turnover of the bank is in an increasing trend. Therefore, the profitability of the bank has been in an increasing trend.

Findings

- It is found that deposits have increased 15.63 per cent during the year 2012 than 2011.
- It is found that Cash and Balances with RBI has decreased 12.12 per cent and the balances with Bank, money at call has increased 247.72 per cent.
- It is found that the bank’s reserve maintenance with RBI have been increased compared to 2012. Bank has deposited its cash and balances with RBI.
- It is found that Deposits of the bank have increased 12.55 per cent and advances have increased 12.45 per cent. Therefore, the costs of holding deposits are met by the way of interest incomes of loans and advances.
- It is found that the bank’s deposit with RBI has increased 25.31 per cent during the year 2014 when compared to 2013. So, the bank has withdrawn fund from banks and money at call and short notice.
- It is found that the bank has increased its deposits with RBI by 15.60 per cent in order to maintain its average weekly and monthly balance as per RBI rules. For the purpose of maintaining its balance with RBI, balance with banks and money at call were withdrawn during the year when compared to previous year.
- It is found that the bank has concentrated on diminishing of the borrowing’s it has been decreased 45.81 per cent than 2014.
- It is found that Loan to deposit ratio has been same upto 2013, thereafter there is an ups and downs. In the case of Debt-Equity ratio, it has been remained unchanged from the year 2012 to 2015. The current ratio has been also been same. The current ratio indicates that the proportion is far below than the standard of 2:1.
- It is found that Return on Equity and Return on Capital Employed have also been in the increasing trend.

- It is found that the cost to Income ratio is above 50 per cent throughout the study period.

Suggestions

- The bank has to concentrate on increasing the working capital position.
- Bank has lower proportion of deposits against loans. Hence, it is suggested that banks have to increase its advances for the purpose of reducing the cost of holding deposits with them.
- The reserve of bank has been in decreasing trend. This shows that profitability of banks is in decreasing trend. Hence, it is suggested that banks need to implement some strategies in reducing expenses and thereby increasing profits.
- The bank should bring out new schemes at time-to time so that more people can be attracted. Even some gifts and prizes may be offered to the customers for their retention.

Conclusion

The main emphasis of this present paper is to assess the performance of Karnataka Bank ltd., for the period of five years i.e. from2011-2015. To measure the performance of the bank in this study, efficiency ratio, liquidity ratio and profitability ratio was taken into consideration. Moreover, it is found that the cost to income of the bank is in an increasing trend. Thus, the bank should focus more on earning other income, and curtailing operating expenses having comparatively higher degree of consistency in order to have improved profitability performance.

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