

# A Comparative Study of Canara Bank and Karnataka Bank- A Case Study

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### ABSTRACT

**Purpose:** *The banking industry is crucial to economic growth. It's one of India's fastest-growing sectors, with a massive network of bank branches offering financial services. The study is being undertaken to find out the profitability of banks with respect to the deposits and advances, interest received and expended by Canara Bank (Public sector) and Karnataka Bank (Private sector). The study was undertaken by considering the deposits and advances of the two banks over 5 years.*

**Methodology:** *The foundation of qualitative research is secondary data. Annual reports, manuals, previous bank records, and balance sheets are used to collect data. Focus group contacts with the manager and the staff are conducted to obtain in-depth data.*

**Findings:** *The study indicated that advances and deposits had a favorable and considerable influence on the net profits earned by banks.*

**Originality:** *The study highlights the effects of deposits and advances on the profitability of the banks.*

**Paper type:** *Case study*

**Keywords:** Deposits, Advances, Canara Bank, Karnataka Bank, Public Sector, Private Sector, Profitability, SWOC analysis.

### 1. INTRODUCTION :

The Indian banking sector has transformed from a sluggish corporate organization to a very proactive and dynamic organization. This change was largely facilitated by liberalization and economic reforms that encouraged banks to explore novel revenue streams rather than relying only on more conventional ones [1]. The foundation for people and commercial entities to deposit money in a bank is funding. The bank lends the funds to people or businesses for use in investments or for personal consumption. On the loans, interest is charged [2]. Deposit mobilization is a necessary component of banking activity [3]. Banks are important providers of credit for all sectors of the economy, including households, businesses, the government, and the less advantaged groups in society [4].

The banking system in India can be roughly broken up into two distinct segments. Both the public sector and the private sector have their own banks. 1993 marked the beginning of business for the new generation of private banks, which were created to augment the activities of public sector banks and to fulfill the requirements of the financial system [5]. Private-sector banks are those owned and controlled by private individuals for the large majority of their shares and equity. Initially, public-sector banks dominated the Indian banking industry, but after the 1990s, private sector banks arose and developed fast [6]. A bank in the public sector is one in which the government owns more than fifty percent of the entire equity. The government develops all financial regulations for public sector banks. A public sector bank is one in which the government owns more than half of the total stock. All financial guidelines for public sector banks are developed by the government. The government operates public-sector banks to instill confidence in depositors that their money is safe [7]. Banks accept deposits such as fixed deposit, savings deposit, etc. and lend loans to various companies, industries and customers [8]. In most cases, financial institutions invest customers' money in a variety

of opportunities and earn a healthy return on the money they have invested. Or we can say that it directs the money that was saved through it into the realm of investing [9].

This research paper attempts to study the profitability of Canara Bank and Karnataka Bank by considering deposits, advances and the interest received and expended over a period of 5 years i.e., 2016-2020.

## 2. REVIEW OF LITERATURE :

The deposit is the amount that consumers keep with the bank for safety and to earn interest. The advance, on the other hand, is the amount that the bank gives to individuals and corporations in order for them to earn money. Few scholars have contributed their views on the deposits and advance which results in the profitability of the banks is exhibited below in Table 1.

The study is taken from Google search engine and key words are profitability, Banking industry, public banks, private banks, Bank loans, Deposit, interest expended, interest earned, deposit mobilisation, long term lending, rate of return, interest rate. The review of literature is carried out for 2000, 2006-2007, 2011-2012, 2014-2018 and 2020.

**Table 1:** Exhibits the contribution of different authors comparing the different banks.

S. No	Field of Research	Focus	Outcome	Reference
1	Bank profitability	Real interest rate is positively associated to bank profitability in Turkey	Increasing bank size and non-interest income can boost bank profitability in Turkey, whereas higher liquidity leads to higher bank profitability	Anber & Alper, (2011).[10]
2	Profitability factors	Bank-, industry-, and macroeconomics-specific variables	Bank profitability is negatively influenced by risk, expenditures, and deposit volume and positively affected by capitalization.	Abobaker, (2018). [11]
3	Banking sector performance	From the standpoint of shareholders, more profitability is the only significant parameter for evaluating banking sector success.	More profitable are private banks than public ones. Foreign banks are at the top of the list in terms of net profitability. Because they offer more fee-based services to businesses and corporations, private sector banks generate more non-interest income than public sector banks.	Ganesan & Kanagaraj, (2020). [12]
4	Bank loans	Banks' capacity to grant loans is closely tied to their capacity to draw in deposits.	Majority of commercial organisations, particularly those in developing nations, rely heavily on bank loans as a source of capital	Sanderson & Le Roux, (2016). [13]
5	Profitability	Interest paid, interest earned, total deposits and advances, non-	In terms of total profitability, private sector banks are less	Mittal & Dhade, (2007). [14]

		operating income and expenses, number of staff, number of branches, and establishment experience are all variables to consider.	profitable than public sector and foreign banks.	
6	Deposits	Sri Visakha Grameena Bank of Andhra Pradesh and Regional Rural Banks of India's total deposits and deposits per branch.	Between 1976 and 1983, Regional Rural Banks in India and Sri Visakha Grameena Bank of Andhra Pradesh had considerable increases in total deposits and deposits per branch.	Kashyap et al., (2015). [15]
7	Mobilisation of deposits	Deposits raised between 1991 and 2004 by Regional Rural Banks of India and Cachar Gramin Bank.	Cachar Gramin Bank's deposit growth rate was higher than the deposit growth rate of all RRBs in India	Calik & Balta, (2006). [16]
8	Performance of seven public and private sector banks	The three sets of ratios employed were operating performance ratios, financial ratios, and efficiency ratios.	In that sequence, ICICI Bank, BOI, PNB, SBI, IDBI, and HDFC came after Axis Bank.	Avkiran, (2011). [17]
9	Relationship between deposit mobilisation and deposit interest rates.	Data from 2000 to 2006 of Zimbabwean banks to express the link between explanatory and explained variables.	Deposit rates and bank deposits correlated positively. Regressors had a high coefficient of determination and were statistically significant (R <sup>2</sup> ). Independent variables explain a major part of the variation in banks' deposits.	Raza et al., (2017). [18]
10	Impact of deposit volume on the total amount of loans	52 respondents were chosen as the sample size by the author from 13 commercial banks in Kenya's Bungoma County.	Total loans granted are anticipated to increase by 10.9 percent for every unit increase in deposit volume.	Mukoya et al., (2015). [19]
11	Link between loans and deposits	44 Vietnamese banks' annual reports from 2008-2025.	Bank deposits have a favourable effect on loans in Vietnam's undeveloped banking sector. Also, Vietnamese banks' lending and deposit performance has improved over time.	Nguyen et al., (2018). [20]
12	Comparative analysis of profit rates	First Security Islami Bank Limited offers the greatest mean return for both Mudaraba term	The rate of interest on a Mudaraba term deposit and inflation do not significantly correlate.	Kabir & Chowdhury, (2014). [21]

		deposits and Mudaraba savings deposits out of the seven listed Islami banks in Bangladesh, researchers have found.		
13	Profit rate on investment	Profit rates on investments in Islamic banks differ from fixed lending rates of local conventional banks, overseas conventional banks, and state-owned commercial banks in Bangladesh.	The highest interest rates are charged to borrowers by foreign commercial banks, and there are notable discrepancies in the mean returns of Islamic banks, domestic conventional banks, foreign conventional banks, and state-owned commercial banks.	Kabir et al., (2012). [22]
14	Profit rate and Interest rate	While no return or profit is required to distribute to current account holders, it is important to fix a deposit rate for different types of saving accounts and investment accounts if the accounts are in non-bank financial institutions, according to the profit rate of Islamic banks and the interest rate of conventional banks in Malaysia.	Higher rates of interest on deposits usually attract more saving accounts because at higher deposit/interest rates, more people will be willing to save their money regardless of their current consumption.	Erusan & Ibrahim, (2007). [23]
15	Deposit rate	Different banks have different rates for deposits,	Longer a deposit is held, the more money the customer gets back.	Haron & Ahmad, (2000). [24]

### 3. RESEARCH GAP :

The main purpose is to study the profitability of Canara Bank and Karnataka Bank considering the deposits and advances, the interest received and expended by the banks. The study helps to get a clear picture of the structure of the deposits accepted and interest expended by the banks and advances provided and interest earned by the banks for a period of 5 years.

### 4. RESEARCH AGENDA :

- (1) What is the growth rate in the deposits and advances of Canara Bank and Karnataka Bank?
- (2) What is the interest earned and expended by Canara Bank and Karnataka Bank on the deposits and advances?
- (3) What is the effect of an increase or decrease in deposits and advances on the profitability of Canara Bank and Karnataka Bank?
- (4) How to analyse the company by using SWOC analysis?

### 5. OBJECTIVES OF THE STUDY :

- (1) To study the growth rate in the deposits and advances of Canara Bank and Karnataka Bank.

- (2) To study the interest earned and expended by Canara Bank and Karnataka Bank on the deposits and advances.
- (3) To find the effect of an increase or decrease in deposits and advances on the profitability of Canara Bank and Karnataka Bank.
- (4) To analyse the company by using SWOC analysis framework.

#### **6. SCOPE OF THE STUDY :**

The study mainly concentrated on the deposits accepted by Canara Bank and Karnataka Bank and the advances provided by the banks. It also considers the interest received and expended by the banks, which leads to the profitability of the banks.

#### **7. RESEARCH METHODOLOGY :**

The information has been collected to prepare this case analysis from different sources. The data for the present case study was collected by having focus group interactions with the branch managers and the staff of the bank and ideas received from them. The data was also collected through bank's annual reports, manuals, magazines, internal records, previous records, websites and balance sheets. Articles were also referred to through Google Scholar.

#### **8. COMPANY PROFILE OF CANARA BANK :**

Canara Bank, well known for its attention on the requirements of its consumers, was founded in July 1906 in Mangalore, then a minor port city in Karnataka, by Shri Ammembal Subba Rao Pai, a great thinker and philanthropist. The bank has gone through several periods of expansion during the course of its century-long existence. Canara Bank saw phenomenal expansion, especially after being nationalized in 1969, when it acquired the status of a national player in terms of geographic reach and clientele categories. The 1980s were distinguished by the bank's business diversification. In June 2006, the bank celebrated a century of operations in the Indian financial industry. Several significant turning points in the bank's eventful history can be found. Canara Bank is today a major member of the Indian banking community [25].

Canara Bank provides retail and corporate banking as well as financial solutions. Its retail portfolio includes savings accounts, time deposits, auto loans, house loans, personal loans, consumer loans, gold loans, and education loans, as well as debit cards, credit cards, travel currency cards, mutual funds, and bancassurance products. The corporate portfolio includes syndication services, corporate consultancy services, project assessments, capital market-related services, legal services, and cash management services. In addition to NRI banking solutions, Canara provides MSME banking solutions such as general, cluster-specific, and subsidy-related programmes, export advances, and non-fund-based facilities. India, the United Kingdom, Hong Kong, China, South Africa, the United States, the United Arab Emirates, and Tanzania all have offices. The headquarters of Canara Bank are in Bangalore, Karnataka [26].

#### **9. COMPANY PROFILE OF KARNATAKA BANK :**

Karnataka Bank Limited is a prominent 'A' Class Scheduled Commercial Bank in India. It was established on February 18th, 1924 in Mangaluru, which is located in the Dakshina Kannada district of Karnataka State and is a seaside town. The bank was eventually established as a financial institution after the nationalist fervour that swept the country during India's fight for independence in the 20th century, The Bank of Karnataka, Sringeri Sharada Bank Ltd., and Chitradurga Bank Ltd. merged together over the course of several years, resulting in the expansion of the bank. They have been at the forefront of providing professional banking services and quality customer care for more than nine decades, and they currently have a nationwide presence with a network of 879 branches that are distributed over 22 states and two Union Territories. We have over 10.21 million consumers, over 8,220 employees, and over 1, 46,000 stockholders, all of which are managed by a staff of management that is both dedicated and professional. They have now established themselves as one of the most successful financial service institutions in India.

Karnataka Bank has taken the lead and set up a Disaster Recovery Centre. This centre will make a copy of the bank's centralised banking system and all of its data. The ATM operations will also be backed up by this centre. If there is a natural disaster in Bangalore, this centre will go into action right away and offer full service. Karnataka Bank is committed to quality at every level. It uses the most up-to-date information technology to deliver products and services to customers, with the goal of building a long-term relationship that works well. But most of all, technology is set up to meet the service needs of customers, both now and in the future [27].

### 10. DEPOSITS, ADVANCES, INTEREST EARNED AND EXPENDED AND PROFITABILITY STATEMENT OF CANARA BANK AND KARNATAKA BANK :

Advances are sums of money that a bank lends to an organization for a specific purpose with the expectation that they will be paid back quickly. Customers are given advances to suit their financial needs, which benefit the banks in the long run [28].

**Table 2:** This table shows the advances provided by Banks for the previous 5 years.

Year	Canara Bank			Karnataka Bank		
	Amount (Rs. In Cr)	Increase Each Year	% increase	Amount (Rs. In Cr)	Increase Each Year	% increase
2016	324714.82	-	-	33902.45	-	-
2017	342008.76	17,293.94	5.33%	36915.70	3,013.25	8.89%
2018	381702.99	39,694.23	11.61%	47251.75	10,336.05	28.00%
2019	427727.27	46,024.28	12.05%	54828.20	7,576.45	16.03%
2020	432175.20	4,447.93	1.03%	56964.27	2,136.07	3.89%

Source: Annual Reports [29], [30].

From the above chart, it is evident that the advances provided by the bank are increasing over the years, which clearly indicates that the bank is meeting its demand from the customers with regard to the various credit facilities required by its customers and contributing to the economic development of society. Furthermore, the increase in advances contributes to the increase in the income earning capacity of the bank. Further, the above table indicates the percentage increase in advances. The percentage increase in the case of Karnataka Bank is more when compared with that of Canara Bank, which clearly indicates the growth prospects of Karnataka Bank.

A deposit is a financial term for money kept in a bank. A deposit is a transaction in which money is transferred to another party for safekeeping. A deposit, on the other hand, might refer to a sum of money used as security or collateral for the delivery of an item [31]. The growth rate of deposits is shown in table 3.

**Table 3:** This table shows the Deposits received by Banks for the previous 5 years.

Year	Canara Bank			Karnataka Bank		
	Amount (Rs. In Cr)	Increase Each Year	% increase	Amount (Rs. In Cr)	Increase Each Year	% increase
2016	479791.56	-	-	50488.21	-	-
2017	495275.24	15,483.68	3.23%	56733.11	6,244.90	12.37%
2018	524771.86	29,496.62	5.96%	62871.29	6,138.18	10.82%
2019	599033.27	74,261.41	14.15%	68452.12	5,580.83	8.88%
2020	625351.17	26,317.90	4.39%	71785.15	3,333.03	4.87%

Source: Annual Reports [29], [30].

From the above chart, it is evident that the deposits received by the bank have been increasing over the years, which in turn has been creating the cash flow for providing advances to meet the financial requirements of its customers. Further, the above table indicates the percentage increase in deposits.

The percentage increase in the case of Karnataka Bank is more when compared with that of Canara Bank except in the year 2018, which clearly indicates the growth prospects of Karnataka Bank. Interest income is the money that a person or business receives in exchange for lending their funds, whether through the opening of a bank account or the purchase of certificates of deposit [32].

**Table 4:** Table shows the Interest earned on advances by Banks for previous 5 years.

Year	Canara Bank			Karnataka Bank		
	Advances	Interest	%	Advances	Interest	%
2016	324714.82	31377.25	9.66	33902.45	4992.21	14.73
2017	342008.76	29585.67	8.65	36915.70	5185.40	14.05
2018	381702.99	29096.44	7.62	47251.75	5423.75	11.48
2019	427727.27	34319.28	8.02	54828.20	5905.96	10.77
2020	432175.20	36075.88	8.35	56964.27	6474.77	11.37

Source: Annual Reports [29], [30].

From the above, it has been observed that the interest earned by Karnataka Bank has been increasing over the years as compared to Canara Bank. Further, Canara Bank showed a percentage decrease in the financial years 2017 and 2018, which clearly indicates that the income earned by the banks increases with the percentage increase in the advances of the banks.

A non-operating item that appears on the income statement is interest expense. It stands for the interest due on all borrowings, including bonds, loans, convertible debt, and credit lines. In essence, it is determined by multiplying the interest rate by the debt's outstanding principal [33].

**Table 5:** Table shows the Interest expended by Banks during 5 previous years.

Year	Deposits	Canara Bank		Deposits	Karnataka Bank	
		Amount (Rs. In Cr)	% Increase		Amount (Rs. In Cr)	% Increase
2016	479791.56	32350.02	6.75	50488.21	3689.34	7.31
2017	495275.24	29560.08	5.97	56733.11	3694.78	6.51
2018	524771.86	27136.16	5.17	62871.29	3566.10	5.67
2019	599033.27	30098.46	5.02	68452.12	4000.84	5.85
2020	625351.17	33520.94	5.36	71785.15	4444.41	6.19

Source: Annual Reports [29], [30].

While interest income is the money you get from investing, interest expense is the cost of borrowing money. While interest income is generally taxable, interest expense is normally tax deductible. You'll need to know the interest rate and the total amount you borrowed in order to determine your interest expense [34].

**Table 6:** Shows the Difference between the Interest earned and expended by Banks during 5 Years

Year	% interest Earned	Canara Bank		% interest Earned	Karnataka Bank	
		% interest Expended	Difference		% interest Expended	Difference
2016	9.66	6.75	2.91	14.73	7.31	7.42
2017	8.65	5.97	2.68	14.05	6.51	7.54
2018	7.62	5.17	2.45	11.48	5.67	5.81
2019	8.02	5.02	3.00	10.77	5.85	4.92
2020	8.35	5.36	2.99	11.37	6.19	5.18

Source: Annual Reports [29], [30].

Interest rates and bank profitability are correlated, with banks making money when rates are higher. Banks take advantage of the difference between the interest they pay to customers and the income they might earn on investments to increase their profits when interest rates are higher [35].



**Table 7:** This shows the Profitability statement of Canara Bank and Karnataka Bank for previous 5 years.

Year	Canara Bank Amount (Rs. In Cr)	Karnataka Bank Amount (Rs. In Cr)
2016	-2812.82	415.29
2017	1121.92	452.26
2018	-4222.24	325.61
2019	347.01	477.24
2020	-2235.72	431.78

Source: Annual Reports [28], [29].

Banks Primary source of income being interest earned on loans and advances, from the above tables it is seen that Karnataka Bank has been earning a higher profits as compared to Canara Bank due to higher margin of interest earned as compared to the rate of interest expended. The reason being the higher percentage increase in advances disbursed during the various years as compared to deposits accepted by the bank as compared to Canara bank, which clearly indicates that the bank's profitability is impacted based on the percentage increase of advances given and deposits accepted over the period of years. Karnataka Bank has been making steady profits over the years as the % increase in advances is more as compared to the Deposits accepted and vice versa in case of Canara Bank as a result of which the bank is showing losses during various years.

### 11. SWOC ANALYSIS OF CANARA BANK :

The SWOC analysis was designed to identify the business model, strategy, concept or system and evaluate its effectiveness in terms of delivering value to stakeholders. This technique provides instructions for more efficiently analysing and identifying the business strategy and business system [36]. Strengths and weaknesses are internal SWOC Analysis components, whereas opportunities and challenges are external structures. SWOC Analysis is a tried-and-true method that enables a business to compare itself to rivals in its sector [37].

#### Strengths

1. The terms for Canara Bank Fixed Deposits range from seven days to ten years.
2. Canara bank's minimum FD deposit is Rs. 1000.
3. Bank offers nomination facility.
4. On maturity, interest on the deposit will be paid.
5. There are no penalties for inactive accounts.
6. Customers can transfer their accounts across branches, anywhere in the nation, by using online banking.

#### Weaknesses:

1. The account balance should not exceed Rs.50, 000 at any time during the year.
2. The credit should not be more than Rs.1 lakh.
3. Money transfers from foreign accounts are not allowed.

#### Opportunities:

1. Senior citizens receive a 50% p.a. higher interest rate than average rates.
2. There is a loan or overdraft option that allows for up to 90% of the deposit.
3. Canara Bank offers a variety of fixed deposit (FD) plans, such as Canara Khazana Deposit and Canara Shikhar Deposit, all of which come with enticing interest rates
4. A free debit card is provided when an account is opened.
5. Canara Bank Basic Savings Deposit customers can nominate a family member.
6. Customers can use the online banking service to conduct transactions, transfer funds, shop online, and so on without incurring any fees. [38], [39].

#### Challenges:

1. Private Sector Banks are increasing their competition by introducing novel investment packages.

2. Economic Crisis.
3. Banks operations get effected when there are changes brought up by RBI [40].

## 12. SWOC ANALYSIS OF KARNATAKA BANK :

The most popular method for tracking and evaluating a company's overall competitive role and climate is called a "SWOC analysis". Its main goal is to assess methods for creating a business plan that aligns the organization's resources and expertise with the demands of the environment in which it operates. Businesses examine their strengths, weaknesses, opportunities, and challenges as well as those of their competitors and goods using the SWOC framework. A SWOC is a thorough examination of the industry's operating environment that helps project various aspects of that environment and incorporates them into the organization's decision-making process [41]. SWOC analysis is one of the key frameworks used to examine organizational success and tactics in a particular environment, as well as human characteristics [42].

### Strengths:

1. There are around 470 branches in 20 states and two union territories.
2. A focus on client satisfaction.
3. Includes farmers and artisans from tiny communities across the country as well as the company's 5844 employees.
4. Quick Remit, a service that facilitates money transfers for Non-Resident Indians living in Canada, the United States, and the United Kingdom.

### Weaknesses:

1. Less reach across the country in terms of ATMs and branches than larger banks.
2. Due to a lack of promotion, brands are less visible.

### Opportunities:

1. International banking in regions that have significant concentrations of Indian population.
2. Rural banking and expanded rural services.

### Challenges:

1. Economic downturn.
2. Extremely competitive environment
3. Strict banking regulations [43].

## 13. FINDINGS :

- The study indicated that advances and deposits had a favorable and considerable influence on the net profits earned by banks.
- It has been noticed that more advances and higher interest earned on such advances result in higher profits produced by banks, which has a favorable effect on their financial health.
- It is observed that higher deposits and higher interest expended on those deposits result in lower profits earned by the banks, which in turn results in more credit risk.
- The lower advance deposit ratio also results in the creation of idle funds that enhance the opportunity cost of the banks to earn higher profits.

## 14. SUGGESTIONS :

- It is suggested that the banks should concentrate on lending activity resulting in an increase in advances and thereby increase in interest and profits earned by the banks.
- It is advices that the banks should have a higher advance to deposit ratio to earn higher net profits.

## 15. CONCLUSION :

This study has attempted to identify the impact of advances and deposits on net profits earned by Canara Bank and Karnataka Bank by considering the data available for the financial years 2016-2020. The study indicated that advances and deposits had a favorable and considerable influence on the net profits earned by banks. The research work strongly suggests that an optimum advance deposit ratio

enhances the returns on the assets, which will in turn affect the profitability and financial health of the banks.

An excessive advance deposit ratio may result in more credit risk, and a lower advance deposit ratio may create ideal funds that enhance the opportunity cost of the banks to earn higher profits. The present study is not free from limitations. The study mainly considered only two banks, one being Canara Bank, which is a public sector bank, other being Karnataka bank, which is a private sector bank, it doesn't include various foreign commercial banks and specialised banks.

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