A STUDY ON FINANCIAL PERFORMANCE ANALYSIS AT CITY UNION BANK

Dr. V.P.T. Dhevika*

Dr. O.T.V Latasri**

H. Gayathri***

Abstract: *Financial Performance refers to the achievement of the bank in terms of profitability. Profitability of a bank denotes the efficiency with which a bank deploys its total resources to optimize its net profits and thus serves as an index to the degree of asset utilization and managerial effectiveness. In this article an attempt is made to find out the financial position of City Union Bank, borrowings of the bank, the liquidity position and solvency of the bank through ratio analysis. This study is for academic purpose.*

Keywords: *financial position, liquidity, solvency, City Union Bank.*

*Head - UG - Commerce, Centre for Research, Department of Commerce, Srimad Andavan Arts & Science College, Tiruchirappalli

**Head - PG – Commerce, Centre for Research, Department of Commerce, Srimad Andavan Arts & Science College, Tiruchirappalli

***Research Scholar, Department of Commerce, Srimad Andavan Arts & Science College, Tiruchirappalli

Financial Performance refers to the achievement of the bank in terms of profitability. Profitability of a bank denotes the efficiency with which a bank deploys its total resources to optimize its net profits and thus serves as an index to the degree of asset utilization and managerial effectiveness.

STATEMENT OF THE PROBLEM

Finance is the scarcest resource in India and hence it needs to be utilized optimally. The sound performance of a firm depends on the well-planning of capital structure, investment and distribution. Any firm that fails to apply the sound principles of capital structure like cost, control and the firm that fails to adopt scientific tool of investment and distribution in managing funds will not survive in the long run. Further, the firm should apply the wealth maximization as criteria in taking financial decisions like financing, investment and distribution.

Since finance in the life blood and nervous system of an enterprise, the importance of the timely appraisal of the performance of the firm cannot be overemphasized. In addition, it is clear from the review of earlier literatures that there has been no study on the Performance Appraisal of City Union Bank. Hence the Researcher felt the need to undertake the present study.

OBJECTIVES OF THE STUDY

- The basic objective of studying the ratios of the bank is to know the financial position of the bank.
- To know the borrowings of the bank as well as the liquidity position of the bank.
- To study the current assets and current liabilities so as to know whether the share holders could invest in City Union Bank or not.
- To study the profits of the business and net sales of the business and to know the stock reserve for sales of the business.
- To know the solvency of the business and the capacity to give interest to the long term loan lenders (debenture holders) and dividend to the share holders.
- To study the balance of cash and credit in the organization.

Research Methodology

The descriptive form of research method is adopted for study. The major purpose of descriptive research is description of state of affairs of the Institution as it exists at present.

The nature and characteristics of the financial statements of City Union Bank have been described in this study.

The data required for the study has been collected from secondary source .The relevant information were taken from annual reports, journals and internet. This study is based on the annual report of City Union Bank. Hence the information related to, profitability, short term and long term solvency and turnover were very much required for attaining the objectives of the present study. To have a meaningful analysis and interpretation of various data collected, the ratio analysis, and intercorrelation matrix were made for this study.

LIMITATION OF THE STUDY:

- The study is limited to a period of 5 years only.
- The study covers only one bank (i.e.) City Union Bank.
- Data of this study has been taken from published annual reports only.

REVIEW OF LITERATURE

It is necessary since it familiarizes the researches with concepts and conclusions already evolved by earlier analysts. It also enables the present researcher to find out the scope for further study and to frame appropriate objectives for the proposed evaluation. Since the proposal of the study is to measure the Study On Financial Performance Analysis At City Union Bank. The previous studies in this area of researches are briefly reviewed. It also includes the opinions expressed by various authors in leading articles, journals, books etc.

A.S. Shiralashetti[1] in their paper "Performance appraisal of the Godag co-operative Cotton Textile Mill Ltd, Hulkoti- A Case Study" discusses about the trends in capital employed and net worth of the firm. It also considered the trends in sales, cost of goods sold, gross profit/loss and net profit/loss during the period. The result were found that the overall performance of the Godag Co-operative Cotton Textiles Mill Ltd has been poor from 2002-2003 to 2008-09.

Chundawat and Bhanawat[2] (2000) analyzed the working capital management practices in IDBI assisted tube and type companies for the period 1994-1998 by using some relevant ratios and concluded that the working capital management ;of IDBI assisted companies was more effective than the industry as a whole.

Deloof[3] 2003 discussed that most of the firms had a large amount of each invested in working capital. It can therefore be expected that the way in which working capital is managed will have a significant impact on profitability of those firm. Using correlation and regression tests he found a significant negative relationship between gross operating income and the number of days accounts receivable, inventories and accounts payable of firms. On the basis of these results he suggested that managers could create value for their shareholders by reducing the number of days' accounts receivable and inventories to a reasonable minimum.

Dheenadayalan V. and Mrs. R. Deviananbrasi[4] (2007) he had suggested that the "Z" score of the sample units remain below the grey area from 1997-07 but in the year 2001-02, the "Z" score is -0.29. After 2001-02, the decreases in the score indicate that the sample unit is not financially sound and healthy. The sample units need to put in efforts to increases the score. This will help the sample unit to avoid any damage to its liquidity and solvency positions, thereby avoiding financial distress and bankruptcy.

Dr. Hamandou Boubacar[5] (2011) in their paper "The financial performance of foreign Bank subsidiaries" discuss about the relationship between the performance of bank foreign subsidiaries and the degree of the implication of the present banks in the organization and the management of their activities abroad. The result were found that ownership means share of the capital held by the parent bank.

Dr. K. Srinvas[6](2010) in their paper "Pre and Post Merger financial performance of merged Banks in India"- A selected study is conducted and analysis the financial performance of Bank of Baroda, Punjab National Bank, Oriental Bank of Commerce, HDFC Bank, ICICI Bank and Centurions Bank of Punjab. Then found that the private sector merged banks performed well as compared to the public sector merged banks.

Dr. P.B. Bhatasna and J.R. Raiyani [7](2011) in their paper "A study on Financial Health of Textile Industry in India: A "Z" – Score Approach" revealed that all the sample companies like SPML Ltd and WIL Ltd were financially sound enough during the study period bearing SSML and SKNL which had slightly lower "Z" score on the basis of average scores during the study period.

Dr. Prasanta Paul[8] (2011) in their paper, "financial performance evaluation – A Comparative study of some selected "NBFCS" found that selected companies differ significantly in terms of their financial performance indicators from one to another may be fer sha different services they provide.

Eijelly[9], 2004 elucidated that efficient liquidity management involves planning and controlling current assets and liabilities. The relation between profitability and liquidity was examined, as measured by current ratio and cash gap (cash conversion cycle) on a sample of joint stock companies using correlation and regression analysis. The study found that the the cash conversion cycle was of more importance as a measure of liquidity than the current ratio that affects profitability. The size variable was found to have significant effect on profitability at the industry level. The result was stable and had important implications for liquidity management.

G.Foster[10] in his study on financial analysis stated that "it is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the item in the balance sheet and the profit and loss account. Financial analysis can be under taken by management of the firms, or by parties outside the firm , viz., owners, creditors, investors and others.

M.Kannandasan[11] (2007) he has made an attempt to have an insight into the examination of financial health of a watch company in India. To evaluate the financial conditions and performance of a company, this study used the Z-Score model, and finally, it was concluded that the financial health of the company was good and financial viability is also healthy.

M. Velavan[12] (2010) in his study measures "Financial Health of E.I.D. Parry Sugar Limited using "Z" scores Model- A Case Study". In this study, the financial health of E.I.D Parry Sugars Limited as per Altman guide lines, the financial health of the sample units were tested through Z-Score and finally, it was concluded that the financial health of the company was good and financial viability is also healthy.

RESULTS & DISCUSSION

TABLE – 1

GROSS PROFIT RATIO

Year	Gross Profit	Net Sales	100	Ratio
2007-08	53.15	691.43	100	7.69
2008-09	58.18	928.08	100	6.27
2009-10	25.28	1100.11	100	2.30
2010-11	177.98	1375.81	100	12.94
2011-12	76.2	1903.9	100	4.00

The ideal level of gross profit margin depends on the industries, how long the business has been established and other factors. Although, a high gross profit margin indicates that the company can make a reasonable profit, as long as it keeps the overhead cost in control. A low margin indicates that the business is unable to control its production cost. **Table-1** shows the Gross Profit on each year differs or fluctuating for City Union Bank. Even though there is fluctuation in gross profit ratio of the CUB ratios are positive for all the years. But in the gross profit of the ratio of the year 2011 is being very high and again slope down in next year onwards.

TABLE – 2

NET PROFIT RATIO

Year	Net Profit	Net Sales	100	Ratio
2007-08	101.73	691.43	100	14.71
2008-09	122.13	928.08	100	13.16
2009-10	152.76	1100.11	100	13.89
2010-11	215.05	1375.81	100	15.63
2011-12	280.25	1903.9	100	14.72

Table-2 shows the relationship between net profit and net sales during the years 2008 to 2009 in the CUB it was 14.71% and in the year 2010 it gone to 13.16 % and again goes further down next year onwards on sales. But the ratio of the year 2011 it was 15.63% which is the highest of the study period. This means that either there is defect in pricing the product or excess non-value added expenditures which reduces the net profit of the company.

Higher the ratio better is the profitability

TABLE – 3

OPERATING RATIO

Year	Operating Cost	Net Sales	100	Ratio
2007-08	57.44	691.43	100	8.31
2008-09	70.08	928.08	100	7.55
2009-10	98.75	1100.11	100	8.98
2010-11	73.69	1375.81	100	5.36
2011-12	162.84	1903.9	100	8.55

Table-3 shows the operating ratios of the CUB. The operating ratio for the non manufacturing concern should be low but in the above cases the ratios are low hence it indicates lower operating expenditure has been incurred by the banks. Higher the ratio the less favorable because it would leave a smaller margin to meet interest, dividend and other corporate needs.

TABLE – 4

OPERATING PROFIT RATIO

Year	Operating Profit	Net Sales	100	Ratio
2007-08	179.13	691.43	100	25.91
2008-09	226.72	928.08	100	24.43
2009-10	255.79	1100.11	100	23.25
2010-11	360.46	1375.81	100	26.20
2011-12	417.46	1903.9	100	21.93

Table-4 shows that the operating ratio of the CUB is higher and though in fluctuating trend year after the bank has been maintaining good operating profit ratio.

TABLE – 5

DIVIDEND PAYOUT RATIO

Year	Dividend Pay out	Earnings Per Share	100	Ratio
2007-08	50	3.18	100	15.72
2008-09	75	3.82	100	19.63
2009-10	75	3.83	100	19.58
2010-11	85	5.31	100	16.00
2011-12	100	6.87	100	14.56

Table-5 shows that the dividend payout ratio of CUB has been fluctuating every year and at the same it has been very low. A company having low payout ratio need not necessarily be a bad company. A company having income may like to finance expansion out of the income, thus low payout ratio.

TABLE – 6

TOTAL ASSETS TURNOVER RATIO

Year	Total Assets	Net Sales	Ratio
2007-08	7348.97	691.43	10.63
2008-09	9250.99	928.68	9.96
2009-10	11559.90	1100.11	10.51
2010-11	14591.50	1375.81	10.61
2011-12	18350.70	1903.90	9.64

The Ideal Ratio is 2 times. **Table-6** shows that the total assets turnover ratio of CUB all the study period shows higher ratio that means it has been properly utilizing its assets to increase the turnover. High ratio indicates efficient utilization and ratio less than 2 indicates under utilization.

TABLE -7

CURRENT RATIO

Year	Current Assets	Current Liabilities	Ratio
2007-08	233.56	354.51	0.66
2008-09	281.90	383.32	0.74
2009-10	352.31	409.15	0.86
2010-11	364.98	484.46	0.75
2011-12	393.16	418.10	0.94

Table-7 shows that the current ratios of CUB are very lower than the ideal ratio of 1.33 for non trading sectors. The above table shows current ratio is less than 1.33% in all the years which means that the bank is not enjoying credit worthiness.

TABLE – 8

PRICE/BOOK VALUE RATIO

Year	Market Price Per Share	Book value Per Share	Ratio
2007-08	39.00	17.71	2.20
2008-09	13.10	20.65	0.63
2009-10	30.55	20.68	1.48
2010-11	43.00	24.85	1.73
2011-12	50.35	30.45	1.65

Table -8 shows that the book value ratio of CUB is normal as well as and there are fluctuations in ratio and in the year 2011 onwards ratios are on the increase.

TABLE – 9

PRICE EARNINGS RATIO

Year	Market Price Per Share	Earnings Per Share	Ratio
2007-08	39.00	3.18	12.26
2008-09	13.10	3.82	3.43
2009-10	30.55	3.83	7.98
2010-11	43.00	5.31	8.10
2011-12	50.35	6.87	7.33

Table -9 shows that the price earnings ratio of CUB is being normal.

TABLE-10

LIQUIDITY RATIO

Years	**Liquid assets**	**Liquid liabilities**	**Ratio**
2007-2008	1245.96	354.51	3.51
2008-2009	1171.74	383.32	3.06
2009-2010	1569.32	409.15	3.84
2010-2011	1651.96	484.46	3.41
2011-2012	1793.53	418.10	4.29

Table -10 shows that the liquidity ratio during the study period is more than the normal (i.e.) 1:1.It was 3.51in the year 2007-08 and reached the highest in 2011-12 to 4.29.

Hence the firm is controlling its stock position because there are linear relationship between current ratio and liquidity ratio.

TABLE 11

WORKING CAPITAL TURNOVER RATIO

Years	**Net sales**	**Net working capital**	**Ratio**
2007-2008	691.43	6951.00	0.10
2008-2009	928.08	8826.38	0.11
2009-2010	1100.11	11087.21	0.10
2010-2011	1375.81	14038.53	0.09
2011-2012	1903.90	17834.82	0.11

Table -11 shows that the relationship between net working capital and net sales. During the study periods the sales are very lower than the working capital. It was 0.10 in the year 2007-08 and the ratio sloped downwards and reached 0.11 in the year 2011-12. As the sales increased and working capital also increased the ratio now moved up to 0.11 times in the year 2011-12.

TABLE – 12

CASH RATIO

Years	Cash + Cash Equivalents	Current Liabilities	Ratio
2007-2008	5353.99	354.51	15.10
2008-2009	6530.33	383.32	17.03
2009-2010	7933.62	409.15	19.39
2010-2011	10541.78	484.46	21.76
2011-2012	13273.57	418.10	31.75

Table -12 shows that a cash ratio of 1.00 and above means that the business will be able to pay all its current liabilities in immediate short term. Therefore, creditors usually prefer high cash ratio, but businesses usually do not plan to keep their cash and cash equivalents at level with their current liabilities because they can use a portion of idle cash to generate profits. This means that a normal value of cash ratio is somewhere below 1.00. But in the above table and charts it shows higher cash ratio which is being kept an idle.

TABLE - 13

CASH TURNOVER RATIO

Years	Cost of Sales	Cash	Ratio
2007-2008	57.44	695.88	0.82
2008-2009	70.08	595.32	0.12
2009-2010	98.75	868.53	0.11
2010-2011	73.69	1052.24	0.07
2011-2012	162.84	814.67	0.20

Table -13 shows that greater cash to sales ratio indicates the effective and better utilization of cash resources. In the table and chart shows the lower ratio which means the bank did not utilize the cash resources properly.

TABLE 14

DEBTORS TURNOVER RATIO

Years	**Total Sales**	**Debtors**	**Ratio**
2007-2008	691.43	4537.06	0.15
2008-2009	928.08	5645.25	0.16
2009-2010	1100.11	6833.46	0.17
2010-2011	1375.81	9255.46	0.15
2011-2012	1903.90	12137.46	0.16

Table -14 shows that high ratio implies either that a company operates on a cash basis or that its extension of credit and collection of accounts receivable is efficient. A low ratio implies the company should re-assess its credit policies in order to ensure the timely collection of imparted credit that is not earning interest for the firm.

TABLE - 15

DEBTS COLLECTION PERIOD

Years	**Average Debtors**	**Turnover**	**365**	**Ratio**
2007-2008	3933.15	691.43	365	22.28
2008-2009	5091.16	928.08	365	20.28
2009-2010	6239.36	1100.11	365	21.13
2010-2011	8044.46	1375.81	365	21.18
2011-2012	10696.46	1903.90	365	21.64

Table -15 shows the ratio of debt collection period. The average collection period for CUB is 21 days. This collection period is the time that it takes to convert balances from accounts receivables back into cash flow.

TABLE -16

CASH TO CURRENT ASSETS RATIO

Years	Cash and Cash Equivalents +Marketable Securities	Total Current Assets	Ratio
2007-2008	5353.99	233.56	22.93
2008-2009	6530.33	281.90	23.17
2009-2010	7933.62	352.31	22.52
2010-2011	10541.78	364.98	28.89
2011-2012	13273.57	393.16	33.76

Table -16 shows the cash to current assets ratio. The ratio is very high and it shows the positive sign.

TABLE – 17

SALES TO CURRENT ASSETS RATIO

Years	Net Sales	Total Current Assets	Ratio
2007-2008	691.43	233.56	2.96
2008-2009	928.08	281.90	3.29
2009-2010	1100.11	352.31	3.12
2010-2011	1375.81	364.98	3.77
2011-2012	1903.90	393.16	4.84

Table -17 shows that the bank has been properly utilizing the current assets to generate sales.

FINDINGS

- Gross Profit of City Union Banks differs each year but they are positive for all the years.
- Net Profit also differs each year in the study periods. The net profits of the bank are also positive majority of the years.
- The sales of the bank show an increasing trend.
- Operating ratios of City Union Bank for the study period are low which indicates lower operating expenditure has been incurred by the bank.

- The City Union Bank has been maintaining good operating profit ratio.
- Dividend payout ratio of City Union bank is also high and it also being stable in each year.
- The total assets turnover ratio of City Union Bank shows that it has been properly utilizing its assets to increase the turnover.
- Current ratio is less than 1.33% in all the years for the bank. This shows that the bank is not enjoying credit worthiness.
- The book value ratio is normal.
- The price earnings ratio of the bank is being normal and also in the increasing trend.
- Liquidity Ratio is higher than the normal ratio of 1:1 it means the firm controlling its stock position.
- Working capital is not properly utilized.
- Cash ratio is being high it means it is being kept an idle.
- The City Union Bank did not utilize the cash properly.
- The credit policy of the bank should be reviewed.
- The debt collection period of the bank is 21 days.
- Cash to current assets ratio is positive.
- The bank has been properly utilizing the current assets to generate sales

SUGGESTION

The Gross Profit ratio can be improved by identifying the factors decreasing the gross profit ratio and it should be thoroughly checked timely whither they are operating factors or any misleading factors.

Current ratio of the bank is being lower than the standard level 1.33 hence the management should take steps to properly utilize the current assets.

Working capital of the bank was also not properly utilized.

The liquidity position of the bank is quite satisfactory. And this must be improved further for the purpose of proper utilization of the liquid assets of the company.

The cash ratio position of the bank is very high for the last five years. It is fluctuating over the years and there is no standard ration maintained. So the management should take steps to improving the cash position of the company.

CONCLUSION

On studying the financial performance of City Union Bank for a period of five years from 2007-08 to 2011-12, the study reveals that the financial performance is better. City Union Bank has been able to maintain optimal cost positioning. Despite price drops in various products, the company has been able to maintain and grow its market share to make strong margins in market, contributing to the strong financial position of the bank. The bank was able to meet its entire requirements for capital expenditures and higher level of working capital commitment with higher volume of operations and from its operating cash flows.

REFERENCES

1. Bhatasna, P.B. (Dr.) & J.R. Raiyani " A Study on Financial Health of Textile Industry in India : A 'Z' – Score Approach" Indian Journal of Finance, Vol.5, No.1 January 2011 p.9-16,25.
2. Chundawat, D.S. and Bhanawat, S.S., working capital management practices in IDBI assisted tube and tyre companies", The Management Accountant, Vol 35, no 2, 2000,pp.99-102.
3. Deloof. M. 2003. "Does working capital management affects profitability of firms" vol 30 no 3 pp.33-43.
4. Dheenadayalan V (Dr.) and Mrs R Devianabrasi "Financial Health Of Coperative Sugar Mill A Case Study Of NPKRR Cooperative Sugar Mills Ltd., New Delhi, January 2007, page 192-197.
5. Eligelly, A.2004 "liquidiy-profitability trade off. An empirical investigation in an emerging market" vol 14 no 2 pp. 48-61.
6. Foster, G. Financial Statement Analysis, prentice hall, 1986, P 2-7.
7. Hamadou Boubacar (Dr.) "The Financial Performance of Foreign Bank Subsidiaries" Indian Journal of Finance, Vol.5, No.1 January 2011 p.3-8.
8. Kannandasan, M."Measuring Financial of a Public Limited Company using "Z" Score Model – A Case Study, the Management Accountant, June-2007, p.469-479.
9. Prasanta Paul (Dr.) "Financial Performance Evaluation- A comparative Study of some Selected NBFCs "Indian Journal of Finance, Vol. 5 No.5 May 2011 p.13-22,42.

10. Shiralashetti, A.S. performance appraisal of the GADAG co-operative Cotton Textile Mill Ltd, HULKOTI – A Case Study" SMART Journal of Business Management Studies, Vol.7, No.1 January-June 2011 p.13-21
11. Srinivas, K (Dr.) 'Pre and Post Merger financial performance of merged Banks in India' Indian Journal of Finance, Vol.4, No.1 January 2010, p.3-19.
12. Velavan, M "Measuring Financial Health of E.I.D. Parry Sugar Ltd Using 'Z' Scaore Model- A Case Study" Indian Journal of Finance, Vol. 4, No.11 Nov 2010 p.30-43.