

## “A STUDY ON WORKING CAPITAL MANAGEMENT OF CANARA BANK”

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### ABSTRACT:

The analysis of working capital management is the process of evaluating the relationship between components parts of financial statement to gain better knowledge. The primary objectives of the study of analysis of working capital management of canara bank. .The research design adopted in the study is descriptive research. study consisting of quantitative and qualitative factors.The sample size of study is six years annual report of canara bank . statistical tools used in the study are ratio analysis and trend analysis.

Key words: Ratio analysis, Trend analysis.

### 1. INTRODUCTION

Working capital management is very important element to measure the short term solvency position of a firm and for profitability. Without its proper management, no corporate can run their business smoothly. Management of working is essential for long term survival for every type of business. Management of working capital lies in maintaining its liquidity in day-to-day operation to ensure smooth running of the business and meets its obligations. The elements of the working capital are short term in nature such as cash, marketable securities, debtors, inventories, creditors etc. Current assets are short-lived investments that are continually being converted into other asset types. As far as current liabilities are concerned, the firms are accountable for paying these obligations on a timely basis but within a year. It should be neither excess nor inadequate in a firm. The requirement of the working capital depends on the operating cycle of the firm. The operating cycle starts with the purchase of raw material and other sources and end with the realization of cash from the sale of finished goods. Requirement of working capital depends upon the length of operation cycle. If period of cycle is long more working capital will be required and vice versa.Liquidity is the function of current assets and current liability. Liquidity can be achieved through to manage the tradeoff between the liquidity and profitability which helps in reduces the risk. Risk refers to the inability of the firm to meet its obligations. Large investment in current assets will increase liquidity with less dependence on short term borrowings. It will reduce the risk of the firm and also decrease the opportunity for gain or loss. On the other hand less investment in current assets increase dependence on short term borrowing, increase risk, reduce liquidity and increase profitability. So, there is an inverse relationship between degree of risk and profitability.

## 2. REVIEW OF LITERATURE

Extensive research works on working capital management have been done in both public and private sectors including multinational companies in Bangladesh.

Sayaduzzaman (2006) in his article on “Working Capital Management: A study on Birla Corporation cement Limited ” mentions that the efficiency of working capital management of Birla Corporation cement Limited . is highly satisfactory due to the positive cash inflows and planned approach in managing the major elements of working capital. He found that working capital management helps to maintain all around efficiency in operations. In the article “Liquidity-Profitability Tradeoff: An Empirical Investigation in an Emerging Market,”

Eljelly (2004) examined the relation between profitability and liquidity by using correlation and regression analyses and found that the cash conversion cycle was of more importance as a measure of liquidity than the current ratio that affects profitability.

Raheman (2007) studied the effect of different variables of working capital management including the Average Collection Period, Inventory Turnover in Days, Average Payable Period, Cash Conversion Cycle and Current Ratio on the Net Operating Profitability of Pakistani Firms. By using Pearson’s correlation and regression analysis he found that there was a strong negative relationship between variables of Working Capital Management and Profitability. He also finds that as the cash conversion cycle increases, it leads to decrease in profitability of the firm and managers can create a positive value for the shareholders by reducing the cash conversion cycle to a possible minimum level.

Islam & Rahman (1994) conducted a study on working capital trends of enterprises in Bangladesh. They find that optimum working capital enables a business to have its credit standing and permits the debts payments on maturity date and helps to keep itself fairly in liquid position which enables the business to attract borrowing from the banks.

## 3. STATEMENT OF THE PROBLEM

The sufficiency of working capital assists in raising credit standing of a business because of better terms on goods bought, lesser cost of manufacturing due to the acceptance of cash discounts, favorable rates of interest etc. Working capital needs of every organization varies depending upon various parameters. For assessing the working capital limits, the Banks should analyze the business operations in detail and credit worthiness of the organizations. Based on business operations, type of industry, creditworthiness and other parameters working capital needs are assessed. For all organizations a single method cannot be applied for assessing the limits. Different methods should be used based on suitability to the organization and acceptability by the Banks.

## OBJECTIVES OF THE STUDY

1. To understand the various sources of working capital employed by Canara Bank.
2. To learn the different forms of working capital extended by the Bank.

## RESEARCH METHODOLOGY

The study is based exclusively on Secondary data. The annual reports of the case unit for the period from 2008-2009 to 2013-2014, relevant text books on financial management form the basis for this study.

## DATA COLLECTION

Secondary data has been obtained from published reports like the annual reports of the Canara Bank, balance sheets, and profit and loss account, booklets, records such as files, reports maintained by the Canara Bank.

## HYPOTHESIS OF THE STUDY

$H_0$  = There is no significance between the current assets and current liabilities.

$H_1$  = There is significance between the current assets and current liabilities.

## TOOLS OF THE STUDY

The major tools used for the analysis are Ratio Analysis, Trend Analysis

Year	Current assets	Current liabilities	Ratio
2008-2009	1,55,087.67	14,050.02	11.03
2009-2010	1,89,186.79	8,483.92	22.29
2010-2011	2,42,220.16	11,210.67	21.60
2011-2012	2,60,975.48	13,531.44	19.28
2012-2013	2,77,214.97	18,108.12	15.30
2013-2014	3,46,197.60	22,999.92	15.05

Source: Secondary Data collected from Annual Reports of Canara Bank

### Inference

The above table reveals that the current ratio during the study period has been in fluctuating trend. The highest current ratio is in the year 2009-2010(22.29) and the lowest current ratio is in the year 2008-2009(11.03). Hence, we conclude that the current ratio has been decreasing from 2009-2010 to 2013-2014 in a notable manner.

Year	Liquid assets	Current liabilities	Ratio
2008-2009	16,727.14	14,050.02	1.19
2009-2010	19,722.93	8,483.92	2.32
2010-2011	30,771.65	11,210.67	2.74
2011-2012	28,246.74	13,531.44	2.08
2012-2013	34,779.21	18,108.12	1.92
2013-2014	44,871.58	22,999.92	1.95

Source: Secondary Data collected from Annual Reports of Canara Bank

### Inference

The above table predicts that the liquid ratio during the study period has been fluctuating trend. The highest liquid ratio is in the year 2010-2011(2.74) and the lowest liquid ratio is in the year 2008-2009(1.19).

Hence, we conclude that the liquid ratio has been decreasing from 2010-2011 to 2013-2014 moderately.

**Table Showing Debt-Equity Ratio (Rs. in Crores)**

Year	Total Long-term Debt	Shareholder's Funds	Ratio
2008-2009	1,93,777.32	12,262.88	15.80
2009-2010	2,42,991.55	15,022.37	16.17
2010-2011	3,07,552.91	20,402.16	15.07
2011-2012	3,42,508.46	23,043.40	14.86
2012-2013	3,76,039.73	25,176.43	14.93
2013-2014	4,47,913.40	30,176.26	14.84

Source: Secondary Data collected from Annual Reports of Canara Bank

#### Inference

It has been seen from the above table that the debt equity ratios during the study period have been in fluctuating trend. The highest debt equity ratio is in the year 2009-2010(16.17) and the lowest debt equity ratio is in the year 2013-2014(14.84). Hence, we conclude that the debt-equity ratio has been decreasing from 2009-2010 to 2013-2014 in a notable manner.

**Table Showing Return on Total Assets (Rs. in Crores)**

Year	Net profit after tax and preference dividend	Total Assets	Ratio
2008-2009	1,836.51	2,20,127.42	0.83
2009-2010	2,742.71	2,66,508.00	1.02
2010-2011	3,796.24	3,39,164.71	1.11
2011-2012	3,165.93	3,79,080.31	0.83
2012-2013	2,852.01	4,19,323.07	0.68
2013-2014	2,501.48	5,01,088.65	0.49

Source: Secondary Data collected from Annual Reports of Canara Bank

#### Inference

The above table exhibits that the return on total assets during the study period has been in fluctuating trend. The highest return on total assets is in the year 2010-2011(1.11) and the lowest return on total assets is in the year 2013-2014(0.49). Hence, it is concluded that the return on total assets is decreasing from the year 2010-2011 to 2013-2014 considerably.

**Statement showing trend percentage for the period 2009 to 2014**

**TREND RATIOS (Base year 2009=100) (Rs. in crores)**

Year	Deposits		Investment		Advances	
	Rs.	Trend percentage	Rs.	Trend percentage	Rs.	Trend percentage
2008-2009	1,86,756.47	100.00	58,056.06	100.00	1,38,360.53	100.00

2009-2010	2,34,517.77	125.57	71,120.48	122.50	1,69,463.86	122.47
2010-2011	2,93,257.91	157.02	86,499.41	148.99	2,11,448.51	152.82
2011-2012	3,26,894.04	175.03	1,06,496.62	183.43	2,32,728.74	168.20
2012-2013	3,55,684.64	190.45	1,27,533.53	219.67	2,42,435.76	175.22
2013-2014	4,20,603.68	225.21	1,35,445.35	233.30	3,01,326.02	217.78

Source: Secondary Data collected from Annual Reports of Canara Bank

### Inference

It has been observed from the above Trend analysis that the deposits collected by Canara Bank has been increased substantially. During the research period the Bank has shown much interest in collecting Deposits from the public and efficiently invested them and make effective advances. During the base year the trend percentage of deposits was 100% and it has been increased to 225.21% in 2013-2014 and in investment the trend was also increased to 233.30%. But in lending advances, the bank has maintaining a safer method and the increase is in steady and progress.

### SUGGESTIONS

- From the research carried on working capital management of Canara Bank has shown that the bank has much concentrating on collecting deposits and advances. It is understood that the bank should pay some kind of concentration towards the upliftment of rural and downward trodden sectors.
- It has also put some interest on social and economical improvement of priority sector. Moreover, the bank has employed working capital very successfully and maintained a balanced structure of borrowed and owned capital but the lending policy should be vary and it should give more attention for increasing the loan facilities to the small and medium scale industries.
- From this study, we analyze that the investment policy of Canara Bank should be improved and modified. It should give more educational loans, Agricultural loans and loans to Non-priority sector. In a nutshell the bank's performance, financial activities, Working capital management and developmental activities or in a well established manner.

### CONCLUSION

Now-a-days, it is common for a commercial banks to maintain is liquidity position, Financial strength, Working capital empowerment, Credit creation policy and Lending policy to survive in the competitive world of finance. The financial structure and portfolio management are well established by Canara Bank in a very successful manner. It is noted from this research that this bank has a predominant role in the financial market of India. It covers a wide area throughout the country by providing Long-term loans to the Large scale Organizations. The bank provides financial assistant to all types of organizations next to State Bank of India in the country. As a financial analysis, this research gives the result of better balancing of capital structure and working capital management by the Canara Bank during the last six years.

**APPENDIX****CONSOLIDATED BALANCE SHEET OF CANARA BANK (Rs. in Crores)**

Particulars	Mar' 09 12 months	Mar' 10 12 months	Mar' 11 12 months	Mar' 12 12 months	Mar' 13 12 months	Mar' 14 12 months
<b>Capital and Liabilities:</b>						
Total Share Capital	410	410	443	443	443	461.26
Equity Share Capital	410	410	443	443	443	461.26
Reserves	9,693.14	12,480.97	19,959.16	22,600.40	24,733.43	29,715.00
Revaluation Reserves	2,159.74	2,131.40	0	0	0	0
<b>Net Worth</b>	<b>12,262.88</b>	<b>15,022.37</b>	<b>20,402.16</b>	<b>23,043.40</b>	<b>25,176.43</b>	<b>30,176.26</b>
Deposits	186,756.47	234,517.77	293,257.91	326,894.04	355,684.64	420,603.68
Borrowings	7,020.85	8,473.78	14,295.00	15,614.42	20,355.09	27,309.72
<b>Total Debt</b>	<b>193,777.32</b>	<b>242,991.55</b>	<b>307,552.91</b>	<b>342,508.46</b>	<b>376,039.73</b>	<b>447,913.40</b>
Minority Interest	181.57	136.36	149.16	161.48	232.16	313.55
Other Liabilities & Provisions	13,868.45	8,347.56	11,061.51	13,369.96	17,875.96	22,686.37
<b>Total Liabilities</b>	<b>220,090.22</b>	<b>226,497.84</b>	<b>339,165.74</b>	<b>379,083.30</b>	<b>419,324.28</b>	<b>501,089.58</b>
<b>Assets:</b>						
Cash & Balances with RBI	10,047.01	15,732.59	22,032.11	17,813.02	15,414.99	22,161.03
Balance with Banks, Money at Call	6,680.13	3,990.34	8,739.54	10,433.72	19,364.22	22,710.55
<b>Advances</b>	<b>138,360.53</b>	<b>169,463.86</b>	<b>211,448.51</b>	<b>232,728.74</b>	<b>242,435.76</b>	<b>301,326.02</b>
<b>Investments</b>	<b>58,056.06</b>	<b>71,120.48</b>	<b>86,499.41</b>	<b>106,496.62</b>	<b>127,533.53</b>	<b>135,445.35</b>
Gross Block	4,550.60	4,607.17	2,883.48	2,884.97	2,882.80	6,661.04
Accumulated Depreciation	1,559.12	1,692.26	0	0	0	0
<b>Net Block</b>	<b>2,991.48</b>	<b>2,914.91</b>	<b>2,883.48</b>	<b>2,884.97</b>	<b>2,882.80</b>	<b>6,661.04</b>
Capital Work In Progress	6.8	16.67	1.03	3	1.2	0.94
Other Assets	3,992.21	3,285.82	7,561.66	8,723.24	11,691.77	12,784.66
<b>Total Assets</b>	<b>220,134.22</b>	<b>266,524.67</b>	<b>339,165.74</b>	<b>379,083.31</b>	<b>419,324.27</b>	<b>501,089.59</b>
Contingent Liabilities	136,576.58	110,628.48	140,847.47	205,626.45	264,010.11	239,629.17
Bills for collection	25,757.73	21,207.65	0	0	0	0
Book Value (Rs)	246.42	314.41	460.55	520.17	568.32	654.22

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