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A study on financial statement analysis of city union bank in Tamilnadu

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Abstract
This study examined the financial performance of City Union Bank (CUB) from 2016 to 2020. This study employed a descriptive research design. The data was gathered from the annual reports of the CUB. Statistcial tools used for this study was regression, correlation, and descriptive statistics. The result shows that profitability and ROA are positively correlated. Furthermore, the study found that the leverage and liquidity ratio did not significantly affect CUB's financial performance. The profitability ratio has also significantly improved the financial performance of CUB in Tamil Nadu. The study concluded that CUB performance in Tamil Nadu should be assessed using profitability ratios.

Keywords: CUB, liquidity, profitability, leverage, performance

Introduction

The banking industry in India appeared to be among the industries growing at one of the quickest rates since the 18th century. According to the RBI report, banks have the best financial and economic circumstances in the world. The banking sector in India has recently grown to be worth Rs.81 trillion. These days, India's internet penetration has influenced the provision of services for mobile banking. In 2018, India's banking sector saw a surge in revenue to $75 billion USD thanks to digital lending. The banking sector in India is broad and varied, with many institutions in various categories. According to IBEF (2018) [2], it comprises a sizable number of banks from the public and private sectors, as well as foreign banks, regional rural banks, and cooperative banks in both urban and rural areas. Private banks are thought to be a crucial component in enhancing India's economic expansion. Private banks are known for their unique quality, special services, and higher fees than public sector banks (Sharma, 2019) [4]. The City Union Bank was chosen among 21 private sector banks because it saw a 16 percent increase in 2018 mainly due to lower provisions, followed by improved NPA management and higher borrower recoveries, which sped up the financial market's development (CUB, 2018) [1]. The researcher will therefore look into CUB's financial performance in Tamil Nadu. Gathering the necessary financial data that is valuable for both internal and external users is the first step in investigating financial performance. The annual reports of the banks included financial statements. The researcher's use of the most appropriate ratios and explanation of banks' financial status in making decisions is of benefit to both internal and external users. Consequently, banks can use financial statement analysis to learn about the consistency of Tamil Nadu banks over the previous five years. Financial analysis must be done, though, in order to determine CUB's stability, viability, and profitability. This helps the banks identify the changes by utilizing financial trends, track their progress, and produce results based on their performance in Tamil Nadu. Furthermore, performance comparisons with competing products are facilitated. Therefore, the current study will help banks and researchers assess the financial statements that ultimately show the performance of banks.

Statement of the problem

City union bank was considered as a small private sector bank in Tamilnadu, which increasing its performance by 27% and now ranking among the top private banks in Tamilnadu. Currently, CUB has one of the highest Net Interest Margins (NIM) in the banking industry in Tamilnadu. The bank has strengthened its position as a relationship-based lending institution in Tamil Nadu by increasing its lending SMEs thanks to its strong financial position.

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Thus, the study investigate the financial performance of the CUB for the five years from 2016 to 2020.

Objectives of the study
- To explore the influence of profitability ratios on the overall financial performance of CUB.
- To identify the effect of leverage ratio on financial performance of CUB.
- To investigate how liquidity ratios contribute to the financial performance of CUB.

Scope of the study
This study is limited to highlighting City Union Bank's financial performance in Tamilnadu. The study will be carried out on one CUB and the results will be assessed in the combined financial statements of the participating companies. The researchers consider the ratios such as liquidty ratio (current, and quick ratio), profitability (GPM, NPM, ROI, ROE, and ROA), and leverage ratio (inventory, debtors turnover, WCT, TAT, and TAT) evaluate the financial analysis of CUB in Tamilnadu.

Limitation of study
- The study was limited by low days when it was not possible to carry out all the analyses.
- The annual accounts of the company serve as the basis for the research, the accuracy of the financial statement estimates determines the accuracy and dependability of the analysis.

3. Review of Literature
Islam (2014) [3] examined the financial performance of NBL in Bangladesh over a five-year period. The study found that the banking sector has been subject to frequent volatility which has affected overall bank performance. The study found that certain financial ratios played a key role in improving bank performance and contributed to the progress of banks in Bangladesh.

Sheela (2011) [5] conducted research on Wheels India Ltd.'s financial performance. Utilizing instruments such as correlation, DuPont analysis, trend analysis, ratio analysis, and comparative balance sheets. A key highlight of her research was the application of the five power analysis method, which helped in selecting commonly used financial ratios while addressing issues related to sample size and data distribution.

Aimed to identify the key factors affecting India's financial performance using specific financial indicators. The study help to address gaps in existing literature by providing important insights into these factors. The results showed that 54% of the variation in the dependent variable. The study also suggested that future research should focus on more advanced measures, such as EVA and Refined Economic Value, to better understand and evaluate the overall performance and growth of organizations.

Sassikala (2018) [6] analyzed the financial performance of TNPL for the financial years 2012 to 2016. The analysis shows a range of highs and lows over the selected years. Although TNPL performance has improved each year, mostly as a result of increased sales, more effective change management is still required to guarantee long-term success. With a strong market reputation and substantial reserves, TNPL was in a good position to grow significantly over the next several years.

Studied how financial ratios affects the profitability of the automobile industry. The study examined 36 financial ratios from 9 Indian car manufacturing companies, categorized into 7 standard groups, covering a 15-year period. The results showed that three specific ratios such as WCTA, ITR, and DPRCP had a significant influence on the industry's overall productivity.

Noted that the standard liquidity ratio commonly used in the automobile industry is applicable to the tractor segment as well. Other sectors such as motors, engine components, appliances and auxiliary equipment also follow standard financial benchmarks. The study found that several companies need to improve their repayment capacity to strengthen their overall financial position. It was noted that car subsidiaries typically meet standard financial norms in all sectors. However, vehicle and scooter manufacturers need to take necessary measures to meet financial requirements and ensure better compliance with their financial obligations.

Conducted a study comparing the strengths and limitations of evaluating a company's overall management performance using financial ratio analysis versus the Balanced Scorecard approach. The findings suggested that while financial ratios provide useful insights, they are not enough on their own to assess overall performance. The Balanced Scorecard was found to be more effective, as it offers a broader and more strategic view. However, the study found that financial ratio analysis and the Balanced Scorecard should be used together for a more complete evaluation, as neither method should be ignored.
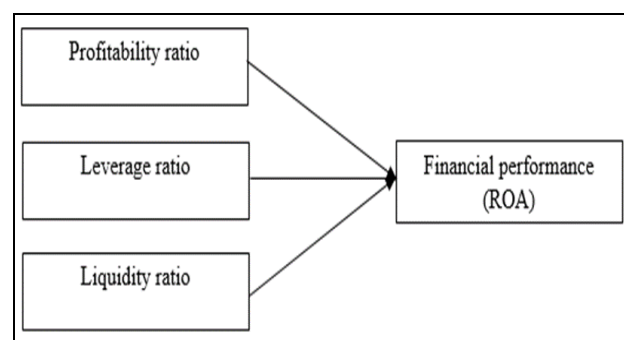
Conceptual framework
4. Research Methodology
This study was descriptive in nature. The researcher analyses the impact of financial ratio on the ROA of CUB in Tamilnadu. The study considered City Union Bank as a target sample. Samples for the study have been selected using non-probability sampling, with City Union Bank chosen as the sample since it is a well-known regional bank based in the Thanjavur district of Tamil Nadu. The study was carried out by examining the bank's annual reports from 2016 to 2020. The researcher will assess the data and extract significant insights using regression, correlation, and descriptive statistics.

Period of study
The data for this study has been collected from the Money control, investing.com and other relevant documents covering the financial years from 2016 to 2020.

Sources of Data: This research is based on secondary data. The majority of the information, including financial

statements and ratio analyses, has been sourced from the Annual Reports of CUB. Additional relevant documents were also reviewed to support the analysis. Additional data has been sourced from Moneycontrol.com, a widely trusted financial database in India, which provides information such as financial statements, ratio analysis, and annual reports. Other sources have been used to support and strengthen the research.

Analysis
Descriptive statistics

Particulars	Min.	Maxi	Mean	SD	Skewness	Kurtosis
Liquidity	13.00	14.22	13.62	0.54	0.27	-0.57
Profitability	4.32	12.80	9.91	3.55	-1.52	3.39
Leverage	5.45	5.80	5.73	0.29	0.67	-0.75
ROA	.85	2.60	2.45	0.33	-1.1	5.62

Source: Own calculation

Liquidity has a mean of 13.62 with a SD of 0.54, which indicates that CUB have stable liquidity levels. The distribution appears to be slightly right-skewed and flatter than usual based on its negative kurtosis (-0.57) and slight positive skewness (0.27).
The mean value of profitability is 9.91 and the SD is 3.55, which reflects the high variation among CUB. A distribution with some extreme values is suggested by the positive kurtosis (3.39), while the negative skewness (-1.52) shows that the CUB were profitable above the mean.
The mean value of leverage was 5.73 and low standard deviation (0.29), showing consistency across CUB. A slight positive skewness (0.67) suggests that CUB have more leverage.
Additionally, ROA exhibits a comparatively low spread, with a standard deviation of 0.33 and a mean of 2.45. CUB have ROA values above average, as indicated by its negative skew (-1.1), and its high kurtosis (5.62) indicates the presence of some outliers. Overall, the result indicates stable liquidity and leverage, but more variability in profitability and ROA.

Pearson Correlation

Particulars	Liquidity	Profitability	Leverage	ROA
Liquidity	1	0.623	0.597	0.640
Profitability		1	0.248	0.971
Leverage			1	0.353
ROA				1

Source: Own calculation
H_0: Financial ratio are not significantly associated with the ROA of CUB

The results show a positive relationship between the liquidity (0.640), profitability (0.971), and leverage ratio (0.353) and ROA. The profitability ratio has a strong and significant correlation with ROA, suggesting that profitability plays a major role in influencing ROA of CUB. On the other hand, liquidity and leverage ratios do not show a strong relationship and are not significantly related to the ROA of CUB.

H_0: Liquidity ratio influence the ROA of CUB
The liquidity ratio shows a moderate correlation with financial performance, with an R-value of 0.640 and an R-square of 0.410, suggesting only 41% of the performance variation is explained by moderate. The F-value (5.789) and t-value (2.654) are low, and the significance level is 0.136, which is much higher than 0.05. Therefore, the moderate ratio does not have a significant effect on the ROA of CUB.

Regression

Particulars	R-Value	R-Square	F-Value	T-Value	Sig.
Liquidity and ROA	0.640	0.410	5.789	2.654	0.136
Profitability and ROA	0.971	0.943	78.425	9.785	0.000
Leverage and ROA	0.353	0.125	1.546	0.874	0.487

Source: Own calculation

H_1: Profitability ratio influence the ROA of CUB
The profitability ratio shows a very strong correlation with financial performance, with an R-value of 0.971 and an R-square of 0.943, suggesting only 94.3% of the performance variation is explained by profitability. The F-value (78.425) and t-value (9.785) are high, and the significance level is 0.000, which is lesser than 0.05. Therefore, the profitability ratio have a significant effect on the ROA of CUB.

H_2: Leverage ratio influence the ROA of CUB
The leverage ratio shows a weak correlation with financial performance, with an R-value of 0.353 and an R-square of 0.125, suggesting only 12.5% of the performance variation is explained by leverage. The F-value (1.546) and t-value (0.874) are low, and the significance level is 0.487, which is much higher than 0.05. Therefore, the leverage ratio does not have a significant effect on the ROA of CUB.

5. Findings
- The profitability ratio has a strong and significant association with ROA.
- The liquidity ratio accounts for 41% of the variation in ROA, the results indicate that it does not have a statistically significant impact.
- The profitability ratio explains 94.3% of the changes in ROA, highlighting a strong and positive influence. This relationship is also statistically significant.
- The leverage ratio contributes only 12.5% to ROA and is not statistically significant, suggesting it has minimal impact on ROA of CUB.

6. Suggestion
The study suggested that
- The liquidity ratio is a useful tool for understanding financial stability, so both management and customers should take it into account when evaluating the bank's performance.
- Profitability ratios have a significant positive impact and should be prioritized in performance analysis since they are very effective in assessing City Union Bank's performance in Tamil Nadu.
- Additional financial indicators should be incorporated into future studies to improve the efficacy of ratio analysis in performance evaluation.

7. Conclusion
This study examined the financial performance of CUB. In addition, it investigated the relationship between the financial ratios and ROA of CUB. The correlation result shows a strong association between the profitability and financial performance of CUB. The regression result reveals

that the liquidity and leverage ratios do not have a significant impact on the ROA of CUB. However, the profitability ratio shows a strong and significant impact on the ROA of CUB. Profitability ratios are helpful for evaluating a company's growth, efficiency, and financial health because they show how well it can generate earnings. This highlights the importance of profitability in driving the company's overall performance. Hence, CUB should focus on strategies that enhance profitability to improve its ROA.

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