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Original Article

Cost and Profitability Analysis of Canara Bank and Bank of India: A Comparative Study

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Abstract: *This study is directed to assess the profitability and cost structure of two scheduled commercial banks using data released by the Reserve Bank of India. For analysing banks, various statistical methods, such as mean, standard deviation, coefficient of variance, maximum, and minimum value, have been used. The study revealed that the cost of funds for the selected banks was different, since the cost structure was different for the same work, which means operational efficiency was different. In other words, Bank of India was found to be a little better than Canara Bank, but as far as profitability was concerned, Canara Bank was found to be far better than Bank of India.*

Keywords: *Operating Profit, Net Interest Margin, Cost of Fund, Return on Assets, and Return on Equity.*

I. INTRODUCTION

In India, Banks play an essential role in the economic development of the country. They act as intermediaries, mobilizing savings from individuals and businesses and lending to those who need funds for productive purposes. In India, public sector banks are at the forefront of this effort, providing essential financial services to a diverse population and supporting various sectors of the economy. Among these institutions, Canara Bank and Bank of India stand out as two of the largest and most influential public sector banks, with extensive networks, rich histories, and significant contributions to the banking landscape.

The banking industry in India has undertaken significant changes caused by financial liberalization, regulatory reforms, increased competition, and technological advancements. In this dynamic environment, it is crucial to understand how effectively major public sector banks, such as CB and BOI, have managed to remain profitable and efficient. Canara Bank, established in 1906, has grown to become one of the leading banks in India, known for its widespread branch network and commitment to financial inclusion. Similarly, Bank of India, founded in 1906, has positioned itself as a global bank with operations in over 15 countries.

One strategy acquired by the banking industry to remain competitive is through mergers and acquisitions. The Government of Indian merged the Syndicate Bank into Canara Bank, and this merger was brought into effect on 1st April 2020, and after that, Canara Bank became the fourth largest public sector bank in India. This consolidation was designed to create a larger and more competitive bank with increased scale and international reach. Now this bank has a significant presence with a large number of branches and a market size. After this large-scale merger and acquisition, the number of public sector banks has decreased to 12 from 27. On the other hand, the Bank of India was one of the six banks that remained independent. Even then, this bank succeeded in holding the status of a prominent public sector bank in India with a larger geographical presence and strong financial performance. It is the sixth-largest public sector bank after Union Bank of India.

Therefore, this study focuses on a comparative analysis of the profitability and efficiency of Canara Bank and Bank of India on the basis of selected ratios, viz. Operating Profit, Return on Assets, Return on Equity, Net Interest Margin, etc., Profitability and Efficiency are essential indicators of a bank's financial health and performance. Profitability measures how well a bank generates income relative to its expenses and other costs. Efficiency, on the other hand, evaluates how effectively a bank utilizes its resources to provide services and generate profits.

The research is particularly relevant in the context of recent challenges faced by Indian banks, including economic fluctuations, rising non-performing assets (NPAs), and increased regulatory scrutiny. By focusing on Canara Bank and BOI, the study sheds light on how two major players are navigating these challenges and aligning their operations to achieve sustainable growth.

II. REVIEW OF LITERATURE

The primary objective of the study by Puja, K., Bharat, M. K., Birau, R., Narendra, K., Filip, R. D., & Kumar, S. (2023) was the performance evaluation of five Indian banks, all of which were public sector institutions: SBI, Bank of Baroda, Canara Bank, PNB, and Union Bank. According to the research, PNB has to raise the caliber of both its assets and earnings. In the same vein, Canara Bank needs to strengthen its liquidity situation and managerial effectiveness. By comparing the pre- and post-merger statistics, Rashmi Mathur and Dr. Meenakshi Sharma's (2022) analysis found that the net profit margin, ROA, and ROE had somewhat improved. However, due to subpar operating performance, the operating profit margin has dropped in the post-merger period. This report, written by Dr. Rajesh Kumar in 2022, attempted to analyze PNB's performance during the last ten years. It was based on secondary data that was gathered and analyzed between 2011–12 and 2020–21. The results of this analysis showed that PNB has not done well over the past eight years in terms of operational profit margin, which has consistently been negative. According to a study by Abhi Dutt Sharma and Dr. Pradeep Kumar Garg (2022), which examined the effects of the mergers between Punjab National Bank, Oriental Bank of Commerce, and United Bank of India both before and after they occurred, the banking industry experienced stability and economic growth as a result of the bank merger and the infusion of capital. According to Dr. Kashyap and Chetan (2021), the researcher used a number of parameters to analyze BOB's financial and operational performance both before and after the merger. It was determined that BOB's mergers would aid in improved capital management and that they would expand the company's service region. The merger had a beneficial effect on BOB. Shabnam Nishat, Khan, Lal, and Tagar (2020). This analysis showed that just the merger of banks would not be profitable for enhancing the efficiency of the Indian PSU banks and would not be sufficient for conquering the issues and risks facing them. It was necessary to make significant efforts to increase their productivity. In their 2020 study, Dr. K. Karthikeyan and V. Hema sought to evaluate the performance of three financial institutions: Vijaya Bank, Dena Bank, and Bank of Baroda. The results of this study demonstrated that mergers and acquisitions have had some degree of success in the Indian banking industry. Using the CAMEL model, secondary data were gathered for this purpose from the three banks' annual reports covering the ten-year period from 2009 to 2018. Dr. Anshu Tyagi, Dr. Kamini Rai & Dr. Meenakshi Sharma, (2020). This study looked at the amount of non-performing assets (NPAs) in Indian public and private sector banks and how they affected the institutions' bottom lines. This study was based on secondary data. According to the report, both public and private sector banks were experiencing an increase in the size of non-performing assets (NPAs). Therefore, in order to improve their efficiency and profitability, banks must efficiently manage their non-performing assets (NPAs). According to Dr. Ravi Agarwal (2019), the researcher used the CAMEL model to assess the soundness and financial performance of 19 nationalized banks in India between 2014 and 2018. According to the research, Indian Bank ranked top overall with an exceptional performance, followed by Andhra Bank and Bank of Baroda. Dr. Gyanendra B. S. Johri (2019). This study analyzed the financial performance of banks. The researcher considered the top 10 banks and reviewed the financial results for 10 years, i.e., 2009-10 to 2018-19, and the CAMEL model was used to score the selected components. Therefore, it was concluded that Indian Overseas Bank performed well in terms of earnings, but Bank of Baroda and Punjab National Bank were the top performers in terms of profitability. M. Jegadeeshwaran and M. Basuvaraj (2018). The purpose of this study was to assess the profitability and liquidity of selected public sector banks in the pre and post-merger periods. The census approach was used to choose public sector banks such as the State Bank of India, Indian Overseas Bank, Bank of Baroda, Punjab National Bank, IDBI Bank, and Oriental Bank of Commerce. The study period encompassed five years before and after bank mergers. The current analysis found that, with the exception of the State Bank of India, a few public sector banks' profitability and liquidity positions increased during the study period. In their 2017 study, Srinivasan, Palamalai, and Britto, John made an effort to assess the financial performance of a few chosen Indian commercial banks from 2012–13 to 2016–17. Financial ratios were used to analyze the financial performance of the 16 commercial banks that made up the study, 11 of which represented the public sector and 5 of which represented the private sector. According to the study, during the whole study period, private sector banks' financial performance was comparatively superior to that of public sector banks.

A) Objectives

- To assess the depositing cost, borrowing cost, and funding cost of Canara Bank and Indian Bank;
- To examine interest income, non-interest income, operating profit, and net interest margins of selected banks;
- To study return on assets and return on equity, and make comparisons on the basis of selected ratios.

B) Data and Methodology

This article is designed to be a diagnostic and exploratory research. This piece of work is entirely based on secondary data. In this study, only two commercial banks (Canara Bank and Bank of India) were selected to examine the efficiency and profitability. Data has been collected from the data release of the Reserve Bank of India, Statistical Table Relating to Banks in India (2024). In addition to this, various issues of RBI bulletins have also been taken into consideration to meet the objectives of this study. For analysing collected data, various statistical methods viz. average, standard deviation, coefficient of variance, lower value, and upper value were brought into execution.

III. RESULT AND DISCUSSION

Table 1: Ratio of Interest Income to Total Assets (In %)

Years	Canara Bank	Bank of India
2024	7.66	7.03
2023	6.56	6.15
2022	5.83	5.21
2021	6.29	5.87
2020	6.90	6.61
2019	7.14	6.60
2018	6.87	6.16
2017	7.28	6.36
2016	8.00	6.80
2015	8.41	7.29
Mean	7.094	6.408
Std. Deviation	0.743427	0.570189
Co- of Variance	10.47966	8.898087
Max.	8.41	7.29
Min.	5.83	5.21
Note: The data for tables 1 to 8 were collected from Reserve Banks of India (2023), statistical tables relating to Banks in India, and annual reports of banks, etc.		

Table 1 reveals the interest income of two banks as compared to total assets. The average value of interest income is higher in the case of Canara Bank, i.e., 7.094%, but the coefficient of variation, which indicates deviation in the earnings of interest income, is also higher, i.e., 10.47%. On the other hand, the average interest income of Bank of India (6.408) is lower, but comparatively it was more consistent, i.e., 8.89%.

Table 2: Ratio of Non-Interest Income to Total Assets (In %)

Years	Canara Bank	Bank of India
2024	1.34	0.71
2023	1.46	0.92
2022	1.39	1.08
2021	1.35	0.99
2020	1.10	1.05
2019	1.00	0.75
2018	1.16	0.93
2017	1.33	1.10
2016	0.89	0.59
2015	0.88	0.70
Mean	1.19	0.882
Std. Deviation	0.202929	0.171977
Variance	17.05282	19.4985
Maximum	0.88	0.7
Minimum	0.88	0.59

Table 2 shows the non-interest income of two banks compared to their total assets. The mean value of non-interest income of Canara Bank is higher, i.e., 1.19, and the coefficient of variance is lower. On the other hand, the mean value of Bank of India is lower, i.e., 0.882, and the coefficient of variance is a little on the higher side. Although there is a minor difference between the non-interest income of the two banks, hypothesis testing will make it clear whether the difference is significant or not.

Table 3: Ratio of Operating Profit to Total Assets (In %)

Years	Canara Bank	Bank of India
2024	2.07	1.63
2023	2.15	1.73
2022	1.94	1.37
2021	1.79	1.49
2020	1.32	1.80
2019	1.61	1.31
2018	1.59	1.16

2017	1.57	1.57
2016	1.30	0.98
2015	1.34	1.26
Mean	1.668	1.43
Std. Deviation	0.294272	0.247467
Variance	17.64221	17.3054
Maximum	1.34	1.26
Minimum	1.3	0.98

Table 3 reveals the operating profit of two banks compared to their total assets. Mean value of operating income is higher in the case of Canara Bank, i.e., 1.66% and the coefficient of variance is 17.64, while Bank of India had a slightly lower value, i.e., 1.43%, but consistency-wise, both banks found almost the same. Hence, the operating profit of Canara Bank was comparatively higher, but consistency was the same.

Table 4: Cost of Fund (In %)

Years	Canara Bank	Bank of India
2024	5.53	4.85
2023	4.47	3.94
2022	3.92	3.65
2021	4.45	4.20
2020	5.48	4.67
2019	5.37	4.80
2018	5.30	4.82
2017	6.05	4.80
2016	6.81	5.29
2015	7.20	5.85
Mean	5.458	4.687
Std. Deviation	0.980253	0.604716
Variance	17.95993	12.90198
Maximum	7.2	5.85
Minimum	3.92	3.65

Table 4 displays the cost of funds of two banks; Canara Bank had a higher cost of funds (5.45%) compared to Bank of India, i.e., 4.68%. Moreover, the coefficient of variance was also higher in the case of Canara Bank, i.e., 17.95%. Hence, in terms of cost of fund, Bank of India had a better performance because it had a comparatively lower cost of fund, i.e., 4.689% and lower variance.

Table 5: Cost of Borrowing (In %)

Years	Canara Bank	Bank of India
2024	10.10	8.79
2023	8.05	8.17
2022	6.82	4.67
2021	5.45	5.12
2020	5.47	8.24
2019	5.60	9.38
2018	4.99	7.81
2017	5.89	6.71
2016	7.27	6.90
2015	7.79	7.15
Mean	6.743	7.294
Std. Deviation	1.508543	1.436894
Variance	22.37198	19.69967
Maximum	7.79	7.15
Minimum	4.99	4.67

Table 5 reveals the cost of borrowings of two banks, Canara Bank had comparatively low cost of borrowing i.e. 6.74%, while Bank of India had 7.29%, as far as consistency is concerned, all though Bank of India had higher cost of borrowing, but it was more consistent because its coefficient of variance was 19.69, which is lower than Canara Bank (22.37).

Table 6: Cost of Deposit (In %)

Years	Canara Bank	Bank of India
2024	5.32	4.44
2023	4.31	3.64
2022	3.79	3.61
2021	4.39	4.14
2020	5.48	4.39
2019	5.36	4.41
2018	5.32	4.59
2017	6.06	4.64
2016	6.78	5.15
2015	7.16	5.73
Mean	5.397	4.474
Std. Deviation	1.012848	0.603443
Variance	18.76687	13.48778
Maximum	7.16	5.73
Minimum	3.79	3.61

Table 6 compares the Cost of Deposit of the two banks. Bank of India succeeded in reducing the cost of deposit to 4.47%, which was lower than the cost of deposit of Canara Bank, i.e., 5.39%. Furthermore, the coefficient of variance of Bank of India was comparatively low, i.e. 13.48%, on the other hand, the coefficient of variance was higher in the case of Canara Bank, i.e., 18.76%. Overall, Bank of India was better than Canara Bank on the cost of deposit.

Table 7: Net Interest Margin (In %)

Years	Canara Bank	Bank of India
2024	2.58	2.67
2023	2.44	2.62
2022	2.22	1.93
2021	2.19	2.06
2020	1.85	2.38
2019	2.21	2.21
2018	2.03	1.70
2017	1.74	1.91
2016	1.77	1.91
2015	1.86	1.91
Mean	2.089	2.13
Std. Deviation	0.27256	0.312346
Variance	13.0474	14.66413
Maximum	1.86	1.91
Minimum	1.74	1.7

Table 7 reveals the net interest margin of two banks, Bank of India had a slightly higher net interest margin (2.13) as compared to Canara Bank, i.e., 2.089%, but consistency-wise, the performance of both banks was almost the same, and due to lower cost of funds, Bank of India had the upper hand in terms of net interest margin.

Table 8: Return On Assets (In %)

Years	Canara Bank	Bank of India
2024	1.01	0.70
2023	0.81	0.49
2022	0.48	0.43
2021	0.23	0.28
2020	-0.32	-0.43
2019	0.06	-0.84
2018	-0.75	-0.91
2017	0.20	-0.24
2016	-0.52	0.94
2015	0.55	0.27
Mean	0.175	0.069
Std. Deviation	0.541724	0.606506
Variance	309.5566	878.9936

Maximum	0.55	0.27
Minimum	-0.75	-0.91

Table 8 discloses the Return on Assets of two banks. It is inferred from the above table that Canara Bank had a high Return of Assets, i.e., 0.175%, while Bank of India had a lower Return of Assets .069%. Although, in absolute terms, the performance of both banks is not good enough because the data in the table makes it very clear that the Return on Assets of both banks was less than even .50%, but comparatively, Canara Bank was slightly better on this parameter.

Table 9: Return on Equity (In %)

Years	**Canara Bank**	**Bank of India**
2024	18.13	9.88
2023	15.18	7.05
2022	9.09	6.75
2021	4.62	4.83
2020	-5.92	-6.92
2019	0.97	-14.37
2018	-12.19	-18.23
2017	3.44	-5.04
2016	-8.86	-19.50
2015	8.79	5.57
Mean	3.325	-2.998
Std. Deviation	9.51171	10.7225
Variance	286.0665	-357.655
Maximum	8.79	5.57
Minimum	-12.19	-19.5

Table 9 shows the Return on Equity, which is left for the equity shareholders only. On this parameter, Canara Bank completely outperformed the Bank of India because Return on Equity on Canara Bank was 3.32%, while Bank of India had a negative return for equity shareholders, i.e., -2.99%, and the coefficient of variance was also very high, i.e., -357.65%. It can be inferred from the above table that Canara Bank was far better than Bank of India on the Return on Equity.

IV. CONCLUSION

After detailed analysis of performance, the following inferences have been drawn by the researcher, Canara Bank outperformed the Bank of India on parameters of interest income to total assets, non-interest income to total assets, operating profit to total assets, return on assets and return on equity because mean values of all the above ratios was higher in case of Cananra Bank, besides co-efficient of variance was also under control as compare to Bank of India. On the other hand, the net interest margin of the Bank of India was slightly better, i.e. 2.13%, In addition to this, the cost of funds was a little lower in the case of Bank of India, i.e., 4.68% as compared to Canara Bank, i.e., 5.45%, and the coefficient of variance was also lower than Canara Bank. So finally, it can be concluded that on the parameters of cost, Bank of India was a little better, but as far as profitability is concerned, Canara Bank was far better than Bank of India.

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